

UNITED STATES DEPARTMENT OF  
**AGRICULTURE**



**GLOBAL PROSPECTS IN THE SNACK FOOD MARKET**

COMMODITY AND MARKETING PROGRAMS – AGEXPORT SERVICES DIVISION  
INTERNATIONAL STRATEGIC MARKETING GROUP  
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## INTRODUCTION

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The objective of this report is to analyze global prospects within the snack food sector in order to identify consumer, product and industry trends that will facilitate U.S. exports of snack food products. This report is a result of inquiries from small and medium-sized U.S. companies who have requested information on this specialized market. Specifically, the research seeks to assist these firms with their worldwide exporting interests and endeavors, as well as provide a general overview of the global snack foods market.

This report was compiled by the International Strategic Marketing Group (ISMG), which is part of the Ag Export Services Division of the Foreign Agricultural Service. ISMG was formed in 2001 in order to aid communication between U.S. companies, participants and cooperators in USDA export market development programs, FAS overseas offices, and international buyers with a particular emphasis on processed foods.

This report was compiled by Mariano J. Beillard, student trainee (economist) for ISMG, under the supervision of senior analyst Dorsey Luchok and ISMG Team Leader Wayne Batwin.

### **Disclaimer:**

This report is a review of recent literature regarding global prospects in the snack food market. Desk and Internet research has been conducted utilizing trade publications, government statistics, as well as trade and consumer statistics from both the U.S. and abroad. Where data is provided by a particular source, the source is quoted directly and/or indicated below the figure (table).

The intent of the analysis is to bring readership closer to the pulse of developments in the global marketplace. In no way do the views and opinions of these sources reflect the USDA's or any other U.S. Government agency's point of view or official policy. Statistics herein are not official USDA statistics unless otherwise specifically noted.

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## EXECUTIVE SUMMARY

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Significant commercial opportunities exist for American manufacturers and suppliers of packaged foods within the global marketplace. One of the key areas that evidenced major growth in recent years in real terms has been the global snack food market.

The reigning consensus is for continued growth in the consumption of snacks worldwide. Growth will be especially pronounced within the savory snacks market; in particular best products prospects are in potato chips/ crisps and other snack products that can combine bold new exotic flavors with snazzy high quality packaging. *Datamonitor* reports that the “global savory snack market is expected to steadily grow from its year 2001 value of \$15.7 billion to nearly \$19 billion by 2006.”<sup>1</sup> The trend should hold in spite of supplier consolidation in a number of countries and regions.

Trends indicate that as societies urbanize, more people find themselves living busier lives that force them to increasingly snack between meals. Added to changing lifestyles there is a worldwide propensity for reducing the lunch break period. Consequently in order to compensate for smaller, less time consuming lunches, workers are augmenting their mid-day meals with increasing doses of snack foods.

Improved manufacturers’ product development and promotional activities have directly impacted and contributed to the increased acceptance and consumption of snacks worldwide. Particularly important in this sense has been advertising that targets children and young adults.

Increased consumption is also closely linked to the growing popularity of food that is quick and easy to serve. Best prospects reside in Western Hemisphere markets and non-Japan Asia. Expect to see substantial growth in years to come in Eastern Europe, the Middle East (e.g. Saudi Arabia, Egypt, the United Arab Emirates), and a return of import demand in markets such as those of Argentina and Brazil.

On the supplier side, growth will be helped along by the rapid introduction of new products and packaging innovations, large advertising and other promotional campaigns, and retailer shelf positioning strategies.

Despite high shipping costs associated with distance to market, tariff and non-tariff barriers (e.g. language labeling, pre-shipment inspections, biotech product issues), complex distribution channels, and/ or a lack of familiarity with American snacks, significant commercial opportunities exist overseas for U.S. snacks that provide bold new exotic flavors and tastes.

Consumers in both developed and developing markets are largely receptive to U.S. snack products, but acceptance of new products remains dependent on a consumer’s previous

exposure to American culture. Key issues for U.S. exporters to focus on are packaging and promotional activities in overseas markets. U.S. manufacturers and suppliers of snacks should consider a local market's particular cultural values when marketing their products. Previous experience with stateside ethnic marketing combined with cultural sensitivity and thorough research of the target market will assist U.S. exporters to profit from increased product acceptance.

Consumers will tend to be receptive to new and exciting foreign taste sensations if these are properly marketed with the end consumer in mind. A key competitive advantage enjoyed by American snacks worldwide is the notion that U.S. products provide high quality for their value.

Exporters should also factor in the influence exerted by large stores such as *Wal-Mart*, *Costco*, and *Carrefour* when considering entering any market. These stores will often import directly through their own international sourcing arms and thus dealing with them before going overseas may be a viable option for those exporters that can effectively meet these stores' quality and volume demands.

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## DEFINING SNACKS

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### What are snacks?

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Snacks include cookies; crackers; chips (corn, potato, tortilla); cheese twists; dried fruit; grain based snacks; granola snacks, hot snacks; shelf stable meat snacks (beef jerky and the like); snack nuts, sunflower and pumpkin seeds, parched corn; popcorn; pork rinds; pretzels; and many more.<sup>2</sup>

Snack food products continue to be largely classified as either salted snacks (e.g. potato chips, corn chips and pretzels, and snack nuts) or other snacks (e.g. cookies and crackers, meat snacks, and popcorn).

The *Snack Food Association*, an international trade association, holds that popular alternative snacks such as yogurt, or anything that is refrigerated or frozen, are not considered in the traditional definition of snacks. Additionally, they do not include in the snack category pastry or cakes since these are typically consumed as desserts and not exclusively as snacks.

Yet as *Prepared Foods* reports, “snack foods are in the eye of the beholder.”<sup>3</sup> Within this category we find that marketers are attempting to position more quick and ready to eat products as snack foods. This tendency blurs the distinction of what is consumed as a snack and what is part of a meal since it now combines traditional salty snacks (i.e. chips/ crisps) with new categories like dairy products and pizza.<sup>4</sup>

*ACNielsen* indicates that due to increased snack consumption, and the accompanying profitability associated with labeling a commodity as a “snack/ convenience food,” there has been a blurring of the traditional definition of a snack food.<sup>5</sup>

A clear example of this has been *Kraft Foods*’ well-publicized attempts to boost lagging cereal sales by building on consumer perceptions of cereals as a possible snack food. For consumers who report often eating on the run, the packaging of a product in portable, snack like packets, allows them to more readily visualize the product as being a potential snack food.<sup>6</sup>

An additional factor that is driving the development and expansion of the global snack food market is the fading notion of eating three meals a day. This trend is being accompanied in most countries by a reduction of the lunch break period.



For many people around the world “grazing,” or snacking on mini-meals throughout the day, is becoming a routine part of their busy schedules.<sup>7</sup> Its advocates claim that the practice may help to supply calories and nutrients that could be missed due to incomplete or skipped meals.<sup>8</sup>

The traditional norm of what constitutes a meal is being modified by the expansion of grazing, as well as by increasing number of health conscious consumers. In regard to the latter, people are becoming nutrition-literate essentially by analyzing the ingredient and nutrient content of product labels. In an age when consumers often find themselves snacking on the run, they nevertheless still worry about calorie and fat intake, especially as they age.

## Category Definitions

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### Savory Snacks

Savory snacks are a catchall category for chips/crisps, extruded snacks, tortilla chips, corn chips, popcorn, pretzels, nuts and other salty snacks.

*Euromonitor(subscription service)* defines these as:

- Chips/ crisps: fried, sliced potatoes that may be flavored or unflavored.
- Extruded snacks: processed/reconstituted/ shaped potato or cereal (corn, wheat, maize, rice) based snacks, flavored or unflavored.
- Tortilla chips: savory snacks made from corn *masa* (dough), rolled flat and then cut into shape (usually a triangle). Typically they are fried in oil, but can also be baked.
- Corn chips: made from corn *masa* normally extruded as long ribbons, cut to length, fried in oil and cooked into corn chips. Differs from tortilla chips by its shape and heavier texture that exhibits a saltier and oily taste.
- Popcorn: made from maize/ corn seeds that have burst after being heated. Includes packaged ready-made popcorn that can be salted, plain or sugar coated, as well as popcorn to be prepared at home.
- Pretzels: this product term applies to any salted biscuit that is knot shaped or stick shaped. Chocolate covered pretzels are not included here.
- Nuts: Processed by either cooking in oil or dry roasting. Often salted. The sub-sector is divided into peanuts, cashews, mixed nuts, fruit and nut mixes and specialized products such as almonds and pistachios.<sup>9</sup>

For greater ease of classification, savory snack food products have often been divided into four main categories depending on how they are prepared.<sup>10</sup>

- 1) Deep fat fried: includes potato crisps, strips, sticks and rings.
- 2) Quick fried: pertains to pre-formed partly cooked pellets derived from potato, potato starch and/ or other cereals.
- 3) Extrusion-cooked: from cereal and potato powders.
- 4) Roasted: primarily snack nuts and in particular roasted peanuts.<sup>11</sup>

As in the case of other snack foods, preparation and packaging impact product freshness and taste.

### **Other Savory Snacks (Meat Snacks)**

*Food Product Design* indicates that meat snacks, a centuries old value-added snack food, continue to grow in popularity.<sup>12</sup> Increasing numbers of consumers and marketers are identifying meat snacks as a quick and healthy low fat source of high protein.

Newer formulations and process optimization, according to *Food Product Design*, have led to diversified product lines that go beyond the plain beef jerky of yesteryear.<sup>13</sup> These snacks encompass, but are not limited to, such new varieties as turkey, ostrich, and salmon jerky that appeal to a wider audience of health conscious consumers. An expanded consumer base explains the presence of jerky in non-convenience store settings such as natural and specialty food shops.

Diversified flavors, softer and chewier varieties, and even jerky prepared following kosher standards are opening a plethora of markets. *Prepared Foods* reports that as a clean and healthy snack alternative, jerky has found adherents beyond the average consumer. As a healthy snack it appeals to a number of sport enthusiasts such as tri-athletes and marathon runners who demand a quick but healthy dose of high protein and low fat.<sup>14</sup>

Depending on the manufacturing process, meat snacks fall into two categories:

- 1) Sliced, whole meat snacks.
- 2) Snacks formulated from comminuted meat (meat that has been subjected to a process whereby it has been reduced to minute particles).

## **Snack and Energy Bars**

Snack bars have been increasing in popularity as part of the overall interest with eating healthy between meals. Particularly appealing to consumers is that snack and energy bars represent a convenient and portable source of high nutrition. These snacks are increasingly seen as providing consumers with a quick and healthy dose of energy while on run.

These products are largely targeted to specific audiences - for example, outdoor enthusiasts or dieters that seek a more nutritious quick fix than the traditional bag of potato chips/ crisps or other fatty snacks.<sup>15</sup> Examples of these snack/ energy bars are *Clif Bar's Luna Nutrition Bars*, as well as *Kellogg's Nutri-Grain Fruit-Full Squares*.<sup>16</sup>

## **Biscuits, Sweet Biscuits, and Savory Biscuits/ Crackers**

Cookies, biscuits and crackers are popular worldwide. They tap a diverse consumer base precisely because of their wide variety of styles and range of flavorings. For example, within this category western-style chocolate chip cookies and cream crackers are found alongside eastern-style soy sauce biscuits and sesame and salted crackers.

Though biscuits in the United States are considered to be small quick breads that often use leaveners such as baking power or baking soda, overseas they are not usually identified as being just a bread side dish. *Food Network* reports that biscuits in the British Isles are generally flat, thin savory cookies and crackers that on occasion can also be sweet.<sup>17</sup> For its part, *Global Supermarket* indicates that a clear-cut distinction between what is a confectionary, biscuit or snack food is increasingly becoming more difficult to make.<sup>18</sup> For a number of industry experts it largely boils down to just product positioning.

Unlike with snack and energy bars, cookies, biscuits, crackers, and other baked snacks actively promote an image of consumer indulgence. These products' primary message focuses on how good their taste makes us feel.

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## GLOBAL OVERVIEW OF MARKETS

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### Top Five U.S. Snack Foods Export Markets

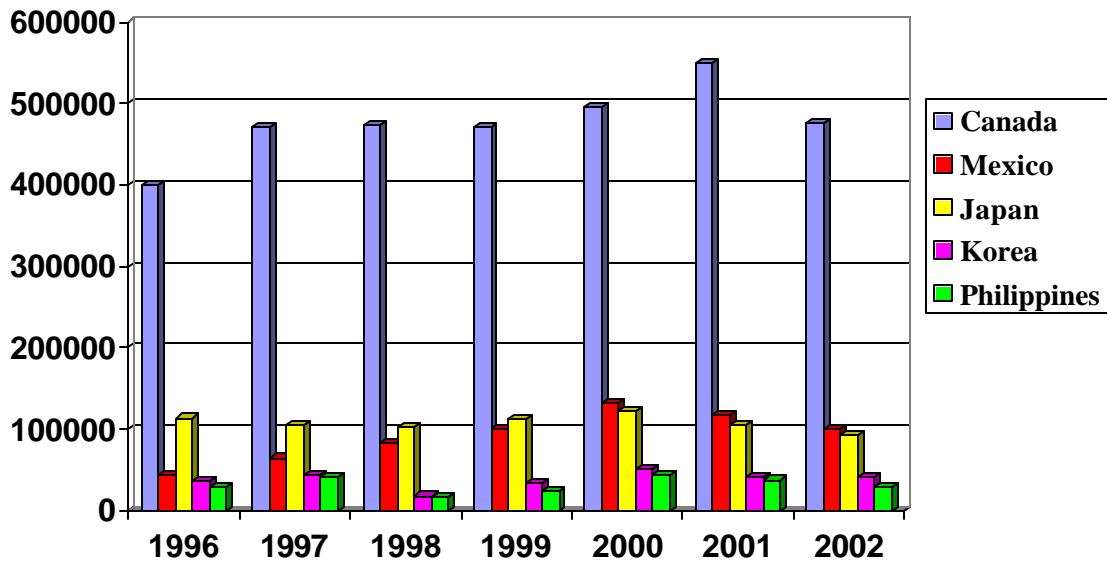
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The top five export markets for U.S. snack foods are the following:

- 1) Canada
- 2) Mexico
- 3) Japan
- 4) Korea
- 5) Philippines

Graph 1 indicates that export levels of snack foods to Canada and Mexico have accounted for the bulk of U.S. export sales overseas. The advent of the North American Free Trade Agreement (concluded in November 1993) has contributed to expanding these volumes.

**Graph 1 – Top 5 Export Destinations of U.S. Snack Foods**  
(US\$ 1,000s)



Data for products such as potato chips, corn chips and other similar products; jerky-type meat items; cookie and crackers; chocolate and non-chocolate candy, and sweet baked goods. Does not include roasted nuts or seed nuts and peanut butter otherwise classed as NAICS 311911.

Source: U.S. Department of Commerce – International Trade Administration.<sup>19</sup>

Data from the *U.S. Department of Commerce* (Graph 1) illustrates that though Canada and Mexico showed a drop in 2002 compared to 2001, due to the global economic slowdown, these along with Japan continue to be America's strongest export markets.<sup>20</sup>

The global economic slump notwithstanding, markets like Germany (27.4 percent) and the Netherlands (51.8 percent) started in 2000 to grow.<sup>21</sup> This situation shows similarities with that of the roasted nuts or seeds and peanut butter (classified as NAICS 31191) segment that saw increased demand in Canada (17.6 percent), Germany (2.7 percent), and the Netherlands (61 percent).<sup>22</sup> Note this report does not consider peanut butter to be a snack food. Also Germany's increase, notwithstanding the country's recession that is second only to Japan's, actually may be product earmarked for Poland

The Netherlands' impressive growth as a destination for American snacks may be due to the possibility that it serves as a transshipment point for other destinations. In many of America's best overseas markets demand for U.S. snacks in particular has long been driven by a combination of cultural affinity, long-established trade relationships, and effective marketing and promotional efforts undertaken by previous American exporters.

Notwithstanding the fact that the Western European market has long served as a major destination for U.S. processed foods, trade in recent years has evidenced limited growth. As Western European import market opportunities slowly decline as a consequence of a combination of foreign direct investment, restrictive food laws, and increased local competition among other factors, new markets for U.S. snack foods are opening in the emerging economies of the world and in particular East Asia.

East Asia continues to be an important export destination for U.S. snacks even in light of recent generalized global economic slowdown and accompanying uncertainty. *U.S. Department of Commerce* statistics indicate that China, which had shown remarkable growth in U.S. origin snack food imports in year 2000, has slowed down significantly compared to other years, but still managed a 1.4 percent increase in demand in year 2002 in comparison to the preceding year. Note that for the first quarter of 2003 exports have increased 28.1 percent (2,9m.) compared to the same quarter in 2002 (2,3m).

Where China continues to evidence impressive growth rates during this same period is in its demand for roasted nuts or seeds (NAICS Code 31191). Within this sector demand has grown by 143.1 percent.<sup>23</sup> In either case, the Chinese market's size and its demand for snack products continue to fuel dynamic growth possibilities. In this sense, Table 1 (next page) helps to illustrate how U.S. snack exports to China have grown in recent years.

Table 1 also points out how some of top U.S. snack food markets have recently contracted. American exports of snacks to its top three export markets of Canada, Mexico, and Japan, has evidenced decline during year 2002 period in comparison with year 2001. Note that 1996 compared to 2002 shows that Canadian and Mexican import demand for U.S. snacks has expanded by 133 percent and 19.1 percent respectively. Data are based upon *U.S. Department of Commerce – International Trade Administration* statistics that factor in inputs of confectionary products in their calculations.

The table also illustrates that as some markets have contracted, others such as Germany and the Netherlands that had been declining for years, have tentatively started to rebound and have recently experienced growth levels of 27.4 percent and 51.8 percent respectively during the 2001 – 2002 period.<sup>24</sup> Also note that the effects of political instability and floundering economies in markets such as Saudi Arabia, Venezuela, and Singapore is apparent by short-term decreased demand for U.S. origin snacks.

The values in Table 1 will differ significantly in some cases from those values reported in Table 2 on the following page. Dollar values and percentages indicated in the latter table consider those *Harmonized Tariff System* (HTS) codes specific to meat snacks, popcorn, potato and corn chips, sweet biscuits, gingerbread, crispbread, and snack nuts (see, *U.S. Export Concordance/ Snack Food Products in Appendix A*).

<b>Table 1 – Destination of U.S. Exports of Snack Food Products</b> - Includes products such as potato chips, corn chips and other similar products; jerky-type meat items; cookie and crackers; chocolate and non-chocolate candy; and sweet baked goods - (Values in 1000 Dollars, ranked)								
Destination	1996	1997	1998	1999	2000	2001	2002	Percent Change 96 – 02
Canada	400,422	470,606	472,770	470,803	495,970	550,438	477,016	19.1%
Mexico	43,316	64,241	83,436	99,371	132,264	116,782	100,936	133.0%
Japan	113,657	105,648	101,616	111,746	122,828	105,620	91,957	-19.1%
Korea	35,987	43,564	17,931	34,049	49,977	40,236	40,509	12.5%
Germany	48,713	29,883	21,747	17,396	15,238	23,850	30,374	-37.6%
Netherlands	21,416	20,552	22,354	19,449	16,218	19,648	29,817	39.2%
Philippines	28,892	40,562	15,579	24,752	43,058	37,064	29,300	1.4%
Hong Kong	39,226	58,859	56,562	51,841	44,689	35,078	25,905	-33.9%
UK	30,642	44,061	54,242	32,916	20,503	22,132	22,948	-25.1%
Taiwan	31,992	32,520	26,307	33,227	27,639	21,012	21,213	-33.7%
China	4,088	5,292	4,724	8,613	16,805	15,562	15,782	286.0%
Saudi Arabia	9,502	12,359	11,654	11,154	12,045	15,497	13,888	46.1%
Singapore	12,286	12,515	13,822	12,157	14,924	14,444	12,617	2.6%
Australia	18,879	25,024	32,054	26,995	29,795	16,300	9,854	-47.8%
Venezuela	4,671	6,058	9,062	19,412	9,517	15,151	9,785	109.4%
All Other	279,845	260,151	294,832	224,120	229,839	231,669	227,399	-18.7%
<b>TOTAL:</b>	<b>1,123,534</b>	<b>1,231,895</b>	<b>1,238,692</b>	<b>1,198,001</b>	<b>1,281,309</b>	<b>1,280,483</b>	<b>1,159,299</b>	<b>3.1%</b>

Source: U.S. Department of Commerce, International Trade Administration<sup>25</sup>

Note that by adopting a more precise interpretation of snack foods similar to that *Snack Food Association's* definitional standard, the values in Table 1 are halved. The elimination of the HTS codes specific to candy/ confectionary products (1704100000, 1704903000, 1704907000, 1808900063, 1806900073) account for approximately \$487.7 million or roughly 42.1 percent of the \$1,159.3 billion of U.S. snack food exports.

Regardless of the definitional standard for snack food products being utilized, the decline in demand for American snacks is partially attributable in some markets, such as those in East Asia, to weakened economies adversely affecting household disposable incomes.

Table 1 highlights declining demand for years 1997 and 1998 in comparison to year 1996 in Japan, Korea, the Philippines, Hong Kong, Taiwan, and China. Particularly noteworthy as a contributing factor here has been the case of Japan, where the national economy continues its downward spiral. Economic malaise and ensuing increased job insecurity, intense market competition for market share between branded products and private labels, and a declining birthrate, among other issues in varying degrees, is negatively impacting demand for imported snack products. This is especially the case when imported snacks are seen as less price competitive, thanks in part to complex import procedures.

Foreign demand for American snack products is also impacted by slowed economic growth in the United States. With reduced American demand for Asian exports, the profitability of the Asian export sector has adversely suffered. Reduced American demand for Asian exports has weakening of the main Asian economies' and resulted in limiting their buying power with a commensurate tightening of consumer food expenditures.

<b>Table 2 – Top 15 Destinations for U.S. Exports of Snack Foods</b> - HTS Codes for meat snacks, popcorn, potato and corn chips, cookies and sweet biscuits, gingerbread, and snack nuts - (Values in 1,000 Dollars, ranked)			
<b>Destination</b>	<b>1996</b>	<b>2002</b>	<b>Percent Change 96 – 02</b>
<b>Canada</b>	131,677	180,657	37%
<b>Mexico</b>	18,152	50,093	176%
<b>Japan</b>	54,249	46,514	-14%
<b>South Korea</b>	12,557	15,722	25%
<b>Taiwan</b>	15,126	12,830	-15%
<b>Philippines</b>	13,964	12,725	-9%
<b>Saudi Arabia</b>	4,408	10,687	142%
<b>United Kingdom</b>	7,231	6,917	-4%
<b>United Arab Emirates</b>	812	7,183	785%
<b>Venezuela</b>	1,768	3,781	114%
<b>Panama</b>	2,086	4,465	114%
<b>China</b>	972	2,819	190%
<b>Germany</b>	4,565	2,351	-48%
<b>France</b>	1,179	1,321	12%
<b>French Polynesia</b>	865	1,256	45%
<b>TOTAL:</b>	269,611	359,321	33%

Source: USDA – FAS – BICO Export Commodity Aggregations based on Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics.<sup>26</sup>

Manufacturers in a number of these markets have responded to lower demand by launching a combination of new flavors and different smaller packaging servings with varying degrees of success. For example, in Germany some of the smaller snack packages are designed to fit into a vehicle's drink holder with the intent of motivating more frequent consumption.

As Table 2 on the preceding page indicates, U.S. exports of snack foods specific to those product categories that do not include confectionary, frozen, and/ or chocolate snacks have largely mirrored the more generalized global statistics found in Table 1.

Nevertheless, findings are more positive than they may otherwise appear. Table 2 indicates strong growth in the NAFTA countries and exceedingly healthy demand in Saudi Arabia, the United Arab Emirates, Venezuela, and China. The contrast and comparison of the export statistics in Tables 1 and 2 indicate that demand for U.S. savorys, baked-sweet goods, and cookies and crackers remain strong even in light of the distorting effect otherwise caused by candy/ confectionary snacks. However, other traditional American export markets such as the European Union and Japan, have not fared as well and experienced during this time period significant contraction in snack product demand for a combination of reasons previously mentioned.



## Market Drivers

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Depending on the particular region of the World that is being targeted for product insertion, there are number of different market drivers that vary according to local tastes and preferences. For American processed food exports, these factors impact snack food product marketability.

Most analysts indicate that American manufacturers and distributors of snack foods that seek to develop overseas markets should be aware of the following factors that resonate with global customers regardless of cultural differences:

- Changing life-styles boost snack consumption. More hectic life-styles combined with increasingly more flexible eating habits and fewer prepared home-meals are permitting snacks to play a greater role in peoples' eating habits.
- Consumers try new American products and experiment with different brands of familiar products, if these are affordably priced in comparison to domestic brands and represent an improvement in overall quality.
- Though most snack foods are typically considered to be indulgence foods, there is increased interest in eating healthier snack foods.
- As income levels have risen in the smaller, emerging countries, there is an increased demand for greater product quality and variety.
- As consumers worldwide become increasingly sophisticated, they come to expect and demand that production techniques meet established safety standards and regulations.

## Savory Snacks

As Table 3 indicates savory snacks continue to grow in popularity not only in the North American market, but also in Latin America and Oceania (Australia, New Zealand, and Pacific Island countries members of the Pacific Community). Purchase of American savory snacks such as chips/ crisps, pretzels, popcorn, and mixes are increasingly driven by product attributes that emphasize greater variety, flavor, freshness, and even good-for-you choices.

A competitive niche for American exporters trying to market snacks in developing regions is to appeal to younger, more affluent consumers that value paying at times a premium in exchange for exotic new tastes and attractive packaging. Yet exporters should be cognizant that the developing countries' consumers will favor smaller packets of packaged goods since it normally results in a smaller cash outlay.<sup>27</sup>

<b>Table 3 – Reported worldwide sales of savory snacks by region</b> (U.S. dollars millions, ranked)					
Region	1998	1999	2000	2001	2002*
North America (U.S. & Canada)	18,330.3	19,522.1	21,087.7	22,479.7	23,590.5
Asia-Pacific	10,627.1	12,073.0	12,634.3	11,632.4	11,393.1
Western Europe	10,255.3	10,419.5	9,674.8	9,601.9	9,913.9
Latin America	5,185.4	5,186.5	5,458.0	5,795.1	6,182.0
Eastern Europe	1,077.0	998.6	1,104.7	1,306.9	1,522.8
Oceania	828.4	928.6	871.3	821.4	897.9
Africa-Middle East	991.2	983.7	968.1	907.9	844.9
<b>TOTAL:</b>	<b>47,294.7</b>	<b>50,112.0</b>	<b>51,798.9</b>	<b>52,545.3</b>	<b>54,345.1</b>

Note: The level of sales are valued at current exchange rates, which may create year-to-year fluctuations from actual sales volumes.

(\*) Provisional data for January through November 2002.

Source: Euromonitor.<sup>28</sup>

Table 3 shows that regional sales of savory snacks has been steady in recent years even in spite of minor declines in the Western Europe, Asia – Pacific, and Africa – Middle East markets.

## Snack and Energy Bars

Though snack and energy bars represent a significantly smaller market than savory snacks, they are an important component of the worldwide trend for eating healthier foods while on the go.

For consumers on the run, snacks represent a boost of energy when they most need it during the day. *Food Channel* indicates that snack bar manufacturers can profit from increase product sales by marketing their products as a source of energy for that time of day between lunch and dinner when consumers experience a net loss of energy.<sup>29</sup>

<b>Table 4 – Reported regional sales of snack and energy bars</b> (U.S. \$ millions, ranked)					
<b>Region</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002*</b>
<b>North America (U.S. &amp; Canada)</b>	1,921.2	2,121.8	2,307.8	2,533.4	2,715.3
<b>Western Europe</b>	507.5	542.2	539.6	596.5	659.3
<b>Asia-Pacific</b>	355.5	402.3	441.9	339.2	379.3
<b>Oceania</b>	124.7	143.1	137.6	142.7	162.7
<b>Latin America</b>	37.1	52.3	69.2	81.5	65.3
<b>Africa-Middle East</b>	25.7	25.9	29.8	31.3	31.9
<b>Eastern Europe</b>	8.9	8.6	8.0	8.6	9.6
<b>TOTAL:</b>	<b>2,980.6</b>	<b>3,296.2</b>	<b>3,533.9</b>	<b>3,733.2</b>	<b>4,023.4</b>

Note: The level of sales are valued at current exchange rates, which may create year-to-year fluctuations from actual sales volumes.

\* Provisional data for January through November 2002.

Source: Euromonitor.<sup>30</sup>

Note that though the data indicates a decline in the proportional weight of the Western European and the Asia – Pacific markets in comparison to the North American market, the former have actually evidenced continued growth. If 1998 is used as a base year, these two markets have shown growth with the exception of year 2001 in which reported sales in Asia – Pacific fell below 1998 values.

Table 4 allows us to conclude that snack and energy bar consumption remains largely a North American phenomenon. Even so as *Food Navigator* indicates the snack and energy bar category remains highly fragmented and thus suggests the possibility of growth for those companies that are innovative enough to provide overseas customers with products developed to meet their particular regional taste demands.<sup>31</sup>

With so many snack and energy bars on the market, U.S. manufacturers and exporters should focus on delivering a product that satisfies consumers' harried lifestyles. Health conscious, but time starved consumers worldwide demand a product that is packed with vitamins and minerals along with the right balance of protein, carbohydrates, and fat, but one that still tastes good. Increasingly important is emphasizing that the product is all-natural and that it contains no artificial colors or flavors.

Much like the case with savory snacks, success in this category is linked with product variety, taste, and convenient packaging. American marketers of snack and energy bars that can effectively communicate to target audiences the good-for-you aspects of these products can tap into the global trend for more organic, fortified, and functional products.

## Biscuits, Sweet Biscuits, and Savory Biscuits/ Crackers

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The top three regional markets continue to be located in North America, Western Europe, and the Asia – Pacific regions. These markets have shown a combination of high sales volume, continued growth and/ or recovery (i.e. Western Europe, during the 1998 – 2002 period).

The Latin American, Africa – Middle East, and Oceania markets during this period however evidence a general downward trend in sales according to *Euromonitor* data as shown in Table 5. All the same this negative outlook should not overshadow the fact that Latin America, even with slowed economic growth and a downward trend in the sales, still remains the fourth largest regional market with approximately \$12.6 million in reported sales during year 2002.

As Table 5 also indicates growth in the North America market, the Asia – Pacific region, and evidence of a recovery in Western Europe, accompanied by continued expansion in Eastern European during year 2002, has been able to reverse many of year 2001's declines. Though reported worldwide sales have not yet recovered their year 1999 high watermark, they have largely remained stable at values just slightly below the \$82.4 billion mark (year 1999).

<b>Table 5 – Reported regional sales of biscuits, sweet biscuits, savory biscuits &amp; crackers</b> (U.S. millions, ranked)					
<b>Region</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>North America</b>	20,711.6	21,610.3	22,358.1	22,591.4	22,892.0
<b>Western Europe</b>	24,239.9	23,890.4	21,881.4	21,886.2	22,488.0
<b>Asia – Pacific</b>	11,915.2	13,552.8	12,696.3	13,859.1	14,120.9
<b>Latin America</b>	16,022.4	14,295.9	14,207.9	13,577.0	12,606.3
<b>Eastern Europe</b>	3,154.5	3,391.5	3,358.2	3,630.6	3,954.6
<b>Africa – Middle East</b>	3,728.3	3,727.8	3,681.8	3,479.5	3,378.1
<b>Oceania</b>	1,823.8	1,932.7	1,796.5	1,679.0	1,822.4
<b>World Total:</b>	<b>81,595.6</b>	<b>82,401.5</b>	<b>81,678.3</b>	<b>80,703.0</b>	<b>81,262.3</b>

Note: The level of sales are valued at current exchange rates, which may create year-to-year fluctuations from actual sales volumes.

Source: *Euromonitor*.<sup>32</sup>

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## REGIONAL MARKETS

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### The North American Snack Food Market

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The North American (U.S. and Canada) market accounts for the bulk of the worldwide snack food sales. Note that though Mexico forms an integral part of North America and is a NAFTA member, for the purposes of this report its data is being included within the Latin American section for overall ease of interpretation.

The U.S. market, despite its size and maturity, continues to grow and represents a third of total world sales. Per capita consumption of snack foods in the U.S. market is growing and will continue into the foreseeable future.

According to the *Snack World 2000* study, the purchase of snack foods in the North American market, like in other places, is increasingly being driven by product attributes such as better-for-you, private label, or salty versus sweet.<sup>33</sup>

Product innovation, highly efficient distribution methods, and marketing sophistication drive the North American savory snack sector. Supermarkets and grocery stores remain the primary distribution channels in this market. Secondary distribution channels are mass merchandisers/warehouse clubs, convenience stores, and food service/vending.

### Demographics

The high level of urbanization (Table 6) prevalent in both the U.S. and Canadian markets facilitate the marketing and distribution of snack products for a population that is getting more sophisticated as it ages. Note that the 15 and under population of the United States and Canada, 21 percent and 19 percent respectively, though low by developing world standards is nevertheless quite high in comparison to the current levels in the other developed economies.

Good potential exists for snack foods geared toward meeting the needs of not only younger consumers, but also increasingly for the demands of the baby boomer generation as it ages. Both countries are highly receptive to product innovation and demand a wide variety of new taste sensations.

As the following table indicates from the GNI PPP per capita figures (gross national income in purchasing power parity divided by midyear population), these countries have the financial means at their disposal to indulge their varying and sophisticated consumption tastes. Note that purchasing power parity (PPP) is a useful tool for comparing living standards between countries, since PPP is the exchange rate at which

goods in one country cost the same as similar goods in another country.<sup>34</sup> In any case, GNI can essentially be understood as income per capita.<sup>35</sup>

<b>Table 6 – North American demographics and imports of U.S. origin snack foods*</b>		
	<b>U.S.A</b>	<b>Canada</b>
<b>Population (Millions)</b>	287.4	31.3
<b>Urban*</b>	75%	78%
<b>GNI PPP p/ capita, 2000 (US\$)</b>	34,100	27,170
<b>Imports of U.S. snacks Jan. – Dec. Comparisons (1000 Dollars)</b>		
<b>1996</b>	N/ A	131,180
<b>2002</b>		177,103
<b>Percent Change</b>		35%

Values are for imports of meat snacks, popcorn, potato and corn chips, cookies and sweet biscuits, gingerbread, and snack nuts.

(\*) Urban is given as a percent of the total national population

Source: USDA – FAS – BICO Export Commodity Aggregations based on Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics and Population Reference Bureau<sup>36</sup>

North American snacking trends continue to substantially influence consumption in overseas markets. Acceptance of U.S. origin and American-style products is greatest where societies share cultural similarities or have extensive commercial contact with the North American market.

For example the Canadian market shares with its U.S. counterpart a number of similarities that have driven in recent years increasingly strong demand for snack foods such as potato chips/ crisps (2005200020), corn chips (1905909030), and Crispbread (1905100000). A common language, a similar cultural heritage, and eased cross-border trade thanks to both the U.S.-Canada Free Trade Agreement (which became effective in 1989) and NAFTA have contributed to making the marketing of snack products often easier than would be the case with other countries or regions.

Demand for U.S. snacks is attributable to Canadians' changing lifestyles that parallel those of their counterparts in the U.S. To keep pace with at times hectic schedules, many Canadians are finding fewer opportunities for sit down meals. Consumers are subsequently demanding high-value U.S. snacks, where the price/ quality ratio is the determining factor, to sustain them over until they have time for a more proper meal.<sup>37</sup>

Canadians' acceptance of U.S. snack foods is also driven by the national population's high level of urbanization (78 percent) and its close proximity to the United States (over 90 percent of the population lives within 100 miles of the border).<sup>38</sup> Canadian demand for U.S. snacks is attributable both to consumers' high income-levels (Table 6), comparable to those in the U.S., as well as the rise of dual-income families and the ensuing increased household buying power. Additionally, the ease of travel between both countries and the widespread presence of American television programs and commercials on Canadian television further stimulates demand for U.S. snacks.<sup>39</sup>

Exporters should note that Canadian acceptance of foreign food products has been stimulated by not only high income per capita levels, but also by the continued immigration of various different nationalities. For example, transplanted Europeans are bringing along eating habits that have been "evolving to allow for several eating occasions a day and eating between regular meal times," as well as a taste for non-traditional European flavors and spices (e.g. Curry and spicy foods).<sup>40</sup> In addition, the influx of Asian immigrants is also developing in the Canadian market culturally well defined market segments that makes ethnic marketing particularly interesting.<sup>41</sup>

### Entry Strategy

For small-to-medium U.S. companies considering exporting for the first time, Canada's proximity and liberalized import policies offer unique opportunities and distinct advantages. Thanks to the NAFTA trade agreement, U.S. exporters of consumer-oriented processed food products benefit from the elimination of all import quotas and tariffs.

The Canadian marketplace shares a number of similarities with the U.S. market. Canadian consumers, much like U.S. counterparts, are increasingly becoming health conscious and demanding value for their money. High purchasing power capability combined with a demand for quality and healthy product attributes, show great promise for U.S. manufacturers of low-fat and non-fat snack products.

U.S. manufacturers and distributors contemplating undertaking export operations to Canada should note that their snacks will have to compete with a sophisticated selection of products already available. Additionally, Canada's large land mass and sparse population tests new products' capabilities to generate "the critical mass necessary to justify manufacturing, marketing, and distribution expenses on a stand-alone basis."<sup>42</sup>

Notwithstanding the local consumer market's receptivity to product and flavor innovation, Canadian manufacturing appears to be hesitant to invest in a myriad of new product lines given the country's relatively sparse population. As the *Snack Food Market in Canada 2003 GAIN Report* (for this and other *GAIN Reports* go to *FASOnline* at, <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>) indicates, American manufacturers and distributors can take advantage of this situation by exporting to Canada snack product lines that are already being produced in economically viable quantities in the United States.<sup>43</sup> Fixed manufacturing costs subsequently are absorbed



within existing U.S. domestic sales, making export sales to Canada a profitable increment to business as long as sales revenues exceed variable costs.<sup>44</sup> This *GAIN Report* also indicates that overall Canadian market demand for new product lines should initially be insufficient to attract competition from Canada's snack manufacturers.

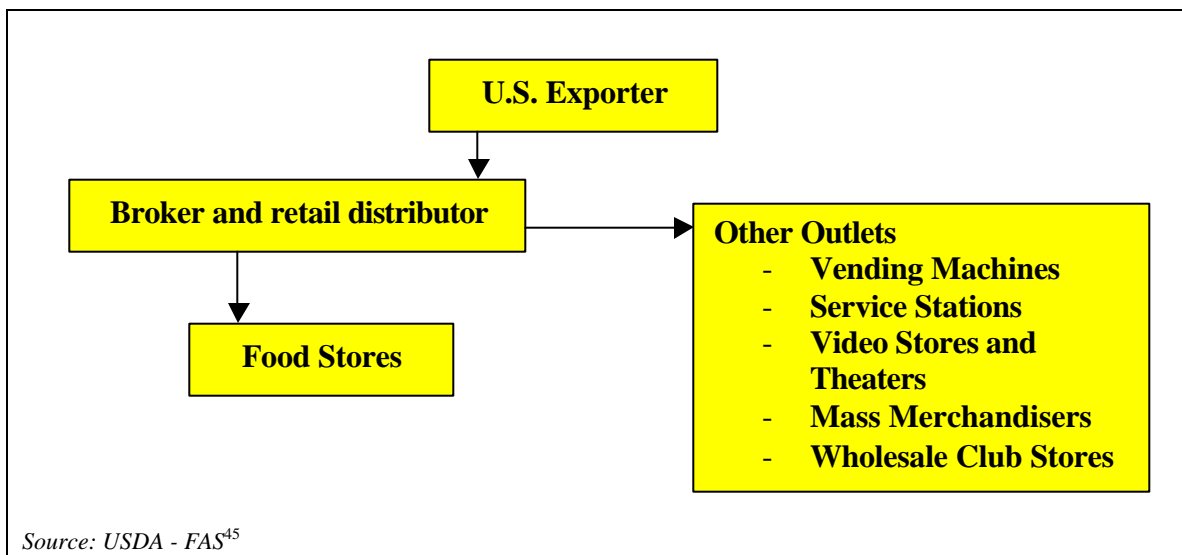
Product features to focus on are:

- 1) Product quality and product safety.
- 2) Healthy foods and organics.
- 3) Product freshness.
- 4) Specialty products geared to regional market tastes (i.e. French and French-American style products for distribution in Quebec, Asian inspired snacks in areas such as Vancouver, and more English style products in other parts of the country).

Competition in the Canadian snack market is fierce and driven by impulse buying. Similar to other markets, competition is based on branding, advertising, and promotion, in addition to effective distribution, product quality, health claims, and especially value.

## Exporter Marketing Channels

### Canada



Besides the high costs associated with placing untested products on the shelf, U.S. snack exporters will need to work through brokers. Brokers are defined as agents employed as middlemen or negotiators to effect bargains and contracts between parties for a fee (commission).<sup>46</sup> U.S. exporters will face not only regional retail distributors but also high retail food concentration within regions - usually just 3 or 4 retailers control over 80 percent of the market.<sup>47</sup>

## The European Snack Food Market

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Analysts concur that bagged snack foods are well established in the European market. Within this regional but highly differentiated marketplace, the United Kingdom in particular stands out as the largest consumer easily outpacing all other European markets combined. British fondness for snacks range from traditional salt and vinegar chips/ crisps to Indian inspired flavored snacks.

*Foodnavigator* reports that the findings of a *Datamonitor* study indicate that Britain's consumption of snack foods in year 2001 stood at roughly €1.6 billion or approximately \$1.7 billion.<sup>48</sup> The British demand for snacks accounts for almost 42 percent of the total European snack market, whose value is reported to hover at \$4 billion (€3.8 billion).<sup>49</sup> Britain's fondness for snacks easily outweighs that of second place Germany, France, Italy, the Netherlands, and Spain combined. Only within the snack nuts sector does the German demand (21 percent) exceed that of British (15 percent).<sup>50</sup>

Also noteworthy has been the upward consumption swing evidenced in Eastern Europe. Though still a minor market in comparison to Western Europe, this marketplace has shown continued growth during the 1998 – 2002 period in both the savory snacks and biscuits/ savory biscuit snack fields while the neighboring Western European market continues to decline (see tables 4 and 5).

*Datamonitor* goes on to report that the Russian and Polish markets are seeing soaring consumption rates and forecasts that these will experience the region's highest compound annual growth rates during 2002 – 06.<sup>51</sup> *Datamonitor* indicates that along with potato chips, this market's dominant snack (45 percent of market revenue), other savorys and popcorn have had double digit growth with snack nuts relegated to the single digits.<sup>52</sup> Producers meeting consumer demand for non-traditional flavors have driven increased sales.<sup>53</sup> A fact highlighted by Poland's drive to become more like Western Europe as it seeks to become part of the European Union.

The continent as a whole is well served by the presence of several well-known regional and international manufacturers. However, opportunities do exist for U.S. firms that are capable of capitalizing on enduring European allegiances to regional tastes (i.e. Germans' fondness for paprika flavored potato chips), as well as for providing bold new exotic flavors that larger manufacturers are hesitant to launch (i.e. *Tamarind World Foods* Indian-inspired mini *naan* chips and mini *poppodums*).<sup>54</sup>

Regionalism aside, there is a continent-wide trend for eating more ethnic snacks and better-for-you foods. As in the case of *naan* chips and mini *poppodums*, for U.S. exporters to properly exploit this tendency, consideration should be given to the definition of what an ethnic snack product implies for the European consumer. As *Mintel International* reports, a product is classified as being ethnic based largely upon the country or the region in which it is sold. Thus Indian-inspired snacks sold as such in the

United Kingdom are normally considered ethnic Indian snack foods within the British market.<sup>55</sup>

Furthermore, *Foodnavigator*, referring to *Datamonitor's* recent report on snacking, indicates growing consumer willingness in countries such as the United Kingdom, France, and Portugal to experiment with a wide range of ethnic foods. These sources maintain that sales of ethnic snacks will “balloon at twice the rate of the overall market at least until 2006.”<sup>56</sup>

American manufacturers and distributors of snacks foods that can identify pan-European market trends will profit from improved product acceptance. U.S. origin snack product acceptance will be facilitated especially by American exporters' ability to position their products to meet varying regional tastes, current food fads, and the nutritional needs of consumers.

For example, German consumers according to the *European Snack Association*, acquired a fondness for potato chips/ crisps from U.S. servicemen stationed in their country following the Second World War. The Germans have subsequently adapted potato chips to their own tastes by flavoring chips with paprika.<sup>57</sup>

Similarly, the French consumer's fascination with American culture has carried over to interest in American foods and snack products. According to the *France Product Brief – Snack Foods in France 2001 GAIN Report*, particularly attractive for U.S. exporters is French consumer demand for salted snacks (seeds/ nuts, extruded products such as chips, and crackers) which in year 2000 alone totaled \$613 million.<sup>58</sup> Yet U.S. exports of salted snacks products (excluding nuts) has amounted to only \$6.5 million in year 2000. As this report indicates, opportunities exist for American exporters given French manufacturers' inability to satisfy both growing demand and product innovation expectations.<sup>59</sup>

Current U.S. exporters of snacks to emerging markets may also find it worthwhile to look into the possibility of supplying Europe's large immigrant and second-generation ethnic communities with familiar snack product lines. The concentration of these communities in major urban centers will assist in product distribution and marketing efforts.

## **Demographics**

With historically low birthrates and an aging population, it will be interesting to see how the continent's well-established markets and manufacturers respond to the demands of a populace that as a whole is increasingly paying attention to what it eats. As the general European population becomes more sedentary with age, it will be increasingly interested in consuming processed food products that are readily identifiable as good-for-you. This situation can provide a range of new opportunities for snacks advertised as representing a healthy choice for the consumer.

As the European birthrate wanes, American snack food producers who wish to service the continent will need to target progressively an affluent but aging consumer base in order to remain competitive with local manufacturers. Manufacturers will need to continuously develop bold new and exotic flavors and packaging that captures the sophisticated attention of an aging group that has grown up with chips/ crisps and similar products.

The foregoing is catching the attention of the *European Snack Association* (ESA) and its membership. ESA indicates that based on the conclusions gathered from *Leatherhead's Food and Drinks Through the Life Cycle* report, snack food marketing has traditionally been aimed at younger consumers but in the near future product campaigns targeting older age groups should quickly become an equally important sector of interest.<sup>60</sup>

European Union (EU) expansion by year 2004 will, according to *Euromonitor*, raise that market's population to 450 million consumers.<sup>61</sup> With eventual expansion to include Eastern European states, such as Bulgaria and Romania that hold significant potential for manufacturers of consumer goods, and even possibly Turkey in the not too distant future, the figure can well exceed 500 million. This expansion would make the EU the world's largest single market.

*Food & Drink Europe* reports that *BMRB* (*British Market Research Bureau*) *International* found that chips/ crisps are consumed by about 89.4 percent of the age 15 and older population.<sup>62</sup> Their findings indicate penetration remains highest among younger consumers. Young urban consumers, with high levels of disposable income, will likely continue to drive demand for snacks well into the future.

Table 7 on the following page helps to illustrate how the EU and Eastern European snack markets have been evolving during this time period. Urbanization combined with high income levels in an age characterized by busy lifestyles, is leading consumers to increasingly turn to snack foods.

These time-pressed consumers nevertheless demand that their snacks be stimulating both in taste and appearance. Product innovation is a fact that should not be overlooked when considering that this market is expected to experience double-digit growth, especially as the disposable income of teenage consumers expand (up by 79 percent during the 1996 – 2001 period).<sup>63</sup> *Datamonitor* additionally reports that given consumers' demand for healthier snacks and meal-snack hybrids, manufacturers should be prepared to meet this interest and match their products to the way people are eating today.<sup>64</sup>

**Table 7 – EU and Eastern European States  
(Excluding countries of the Former Soviet Union)  
Demographics and imports of U.S. origin snack foods.**

	<b>Britain</b>	<b>Germany</b>	<b>France</b>	<b>Italy</b>	<b>EU – 15</b>	<b>Eastern Europe (excl. FSU)</b>
<b>Population (Millions)</b>	60.2	82.4	59.5	58.1	378.5	101.8
<b>Urban*</b>	90%	86%	74%	90%	73%	65%
<b>GNI PPP p/ capita, 2000 (U.S. \$)</b>	23,550	24,920	24,420	23,470	25,060	9,013
<b>U.S. imports Jan. – Dec. Comparisons (1000 Dollars)</b>						
<b>1996</b>	7,159	4,547	1,169	1,960	79,794	1,836
<b>2002</b>	6,880	2,351	1,321	879	22,588	2,381
<b>Percent change</b>	-4%	-48%	13%	-55%	-72%	30%

Values are for imports of meat snacks, popcorn, potato and corn chips, cookies and sweet biscuits, gingerbread, and snack nuts.

Eastern European states considered: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Lithuania, Estonia, and Latvia.

(\*) Urban is given as a percent of the total national population

Source: USDA – FAS – BICO Export Commodity Aggregations based on Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics and Population Reference Bureau..<sup>65</sup>

Though Table 7 purports that there has been a notable decline in the demand for U.S. origin snack foods during the review period (e.g. Britain, Germany, Italy, and the EU as a whole), the aggregation of unrelated snack foods does tend to mask otherwise good potential prospects for individual snack products.

Exporters should heed to this situation when formulating their market penetration strategy. For example in the case of the United Kingdom, demand for U.S. origin potato chips/ crisps has ranged from 1999 onwards from between \$1.4 to \$2.5 million dollars. Notwithstanding these oscillations, these figures are greatly improved over the initial figure of \$173 thousand dollars reported at the beginning of the review period in 1996 and represent an increase of between 709 and 1,345 percent.

Note that outside of the British market, demand levels for U.S. origin snack foods have not fared as well. This weak demand for U.S. snacks is due to a combination of factors such as enduring economic recession in major markets such as Germany, as well as increased local manufacturing within the EU of American-style snacks in order to effectively exploit a unified, barrier-free market for member-produced snacks.

## Entry Strategy

U.S. exporters seeking to penetrate the European snack food market should focus on establishing relationships with importers, distributors, wholesalers or specialized snack food retailers, depending on their product lines and company size. The costs and type of advertising campaigns run by local competitors and the intensity of competition for market share needs to be adequately assessed. European snack manufacturers and distributors fully exploit transportation and tariff advantages that their products hold over similar U.S. snack products.

Small-to-medium sized U.S. exporters should contact importers/ distributors who can be of assistance with paperwork relating to customs duties, import certificates, labeling, etc.

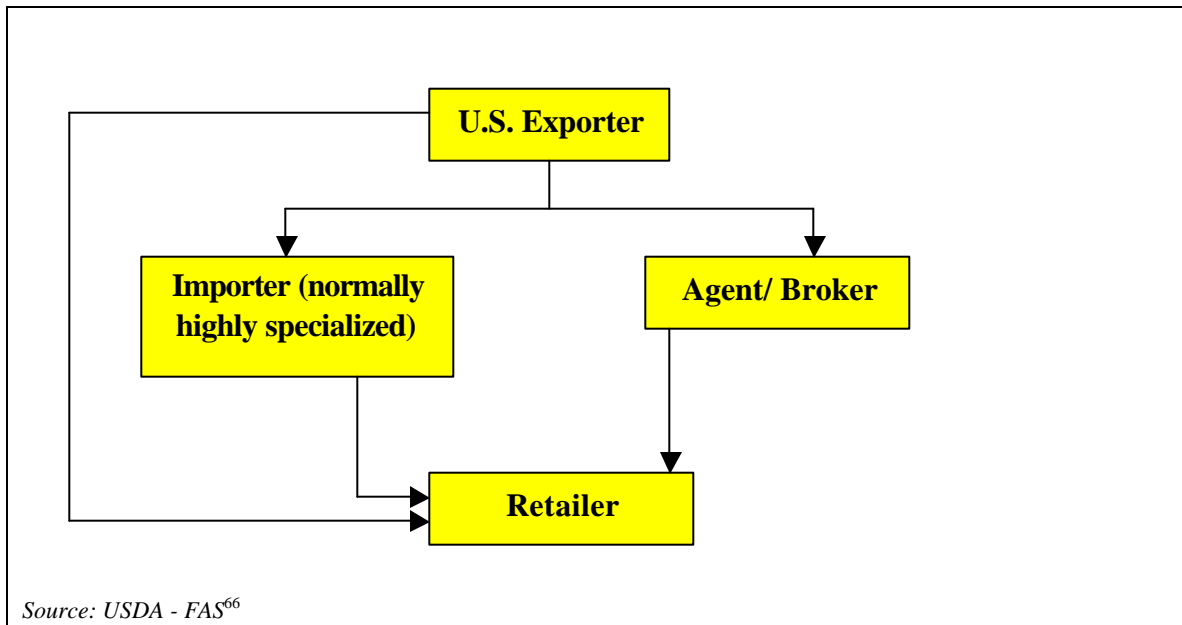
U.S. exporters and distributors interested in exporting to Europe should focus on innovation and product variety in order to compensate for higher prices related to transportation costs and customs duties on landed goods.

Product features to focus on are:

- 1) Product quality, packaging, and product safety. The latter is increasingly becoming more common depending on the import commodity in question. The product may require that a tracing and labeling system guarantee it (i.e. issues pertaining to biotech products and proper product labeling). See, <http://www.useu.be/agri/usda.html> for general information and import rules, as well as member specific rules.
- 2) Healthy foods and organics.
- 3) Ethnic foods such as Chinese, North African, Asian, Tex-Mex, Italian, Thai, etc. These foods are increasing popular with younger consumers.
- 4) Product freshness.

## Exporter Marketing Channels

### Europe



In the European Union, specialized importers along with agents/ brokers normally handle most import procedures for retailers. Retail organizations, especially the German ones according to the *Germany Exporter Guide – Roadmap to the German Market 2003 GAIN Report*, rarely source product from outside the EU without the intervention of an importer or agent.<sup>67</sup> Retailers will consider dealing directly with overseas suppliers only when dealing with sufficiently large volumes of product.<sup>68</sup>

U.S. exporters should seek to target specialized importers since the relationship of these with retailers is usually quite intensive. These importers have not only well-developed distribution capabilities, but also an in-depth knowledge of the requirements of the retailer.<sup>69</sup> Note that these importing entities will not only source product, handle import (customs) procedures, and provide distribution capabilities, but additionally often supply maintenance and even pricing and labeling assistance to their customers.<sup>70</sup>

Normally new-to-market American exporters will be required to submit product descriptions and price quotations, products for laboratory testing, and sanitary/ health certificates in addition to other import documents.<sup>71</sup> In this regard the *European Union Food and Agricultural Import Regulations and Standards Country Report 2002* indicates that in the absence of harmonized EU regulatory regulations, the particular country's import requirements will apply.<sup>72</sup>

## The Asia – Pacific Snack Food Market

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Though a number of East Asian markets have evidenced in recent years a reduction in the demand for U.S. origin snacks foods, these markets still remain significant destinations for American snacks.

The slowdown in the import of American snack foods is due to a number of issues running the gamut from global recession to expanded manufacturing and distribution capabilities of U.S. food processing companies' overseas subsidiaries.

The region continues to be an interesting destination for the export of American snacks. U.S. exporters of snacks who wish to develop new markets for their products in this region should be prepared to incur costs associated with extensive market research, travel, and tailoring production and packaging lines to country specific requirements.

This last issue has gained momentum recently as is evidenced by product recalls in Hong Kong and Singapore, among others, of potato chips/ crisps found to contain the artificial sweetener *stevioside*.<sup>73</sup> Similar to the European situation, increased popular anxiety about the use of biotech products in food is driving a number of countries in the region to require that imported foods clearly indicate on their packaging the presence of these.

### Demographics

Population growth in the larger East Asian countries is skewing population statistics toward urbanization. Natural increases in population size are creating new markets for American snacks in the urbanized population centers. Higher levels of urbanization have traditionally allowed these communities to benefit from expanded trade contacts with the West and have consequently led to greater acceptance for western products.

U.S. processed foods such as snacks (i.e. *Pringles Potato Chips*) find good acceptance in the major urban centers of East Asia. If the trend just must mentioned holds, U.S. snack exporters can stand to profit from sales to China's middle class. Note that the Chinese middle class by some estimates numbers anywhere from 65 million to upwards of 200 million people. It is this highly urbanized, geographically concentrated population whose income levels are steadily rising along with its exposure to the West.

Particularly relevant about the foregoing are *Promar International's* estimates that assert that out of China's 1 billion plus inhabitants, who already purchase at least \$30 billion on packaged food products, there are roughly 140 million who purchase branded packaged foods.<sup>74</sup> Within this grouping will naturally fall a number of imported packaged foods from the West such as savory snacks. As *Promar International* further reports, to these figures should be added another 450 million people even though their current purchasing power limits them normally to unbranded processed products. Nevertheless this segment of the Chinese population according to *Promar International* is gradually increasing its



occasional purchases of branded and imported products as the Chinese national economy becomes further integrated with the rest of the global community.<sup>75</sup>

Table 8 helps to illustrate the finding that rising income levels are tied to increased urbanization. Urbanization impacts consumption patterns. As the national population concentrates in urban centers, it becomes exposed to both foreign food products and increased time constraints brought about by the hustle and bustle of city life.

<b>Table 8 – East Asian demographics and imports of U.S. origin snack foods.</b>						
	<b>China</b>	<b>Japan</b>	<b>South Korea</b>	<b>Philippines</b>	<b>Taiwan</b>	<b>East Asia Total</b>
<b>Population (Millions)</b>	1,280.7	127.4	48.4	80.0	22.5	1,995.8
<b>Urban*</b>	38%	78%	79%	47%	77%	50%
<b>GNI PPP p/capita 2000 (U.S. \$)</b>	3,920	27,080	17,300	4,220	N/A	11,076
<b>U.S. imports Jan. – Dec. Comparisons (1000 Dollars)</b>						
<b>1996</b>	918	48,264	11,645	13,399	15,072	119,912
<b>2002</b>	2,796	39,532	15,558	12,196	12,642	114,156
<b>% change</b>	205%	-18%	34%	-9%	-16%	-5%

Values are for imports of meat snacks, popcorn, potato and corn chips, cookies and sweet biscuits, gingerbread, and snack nuts.

East Asian countries considered: Japan, Philippines, Singapore, People's Republic of China, Taiwan, South Korea, Thailand, Indonesia, Vietnam, Brunei, Cambodia, Burma, Southern Asian NEC (Bhutan, Maldives Islands, East Timor), Macao, Hong Kong, and Mongolia.

\* Urban is given as a percent of the total national population

Source: USDA – FAS – BICO Export Commodity Aggregations based on Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics and Population Reference Bureau.<sup>76</sup>

Other countries such as Japan and South Korea, though much smaller than China in terms of overall land mass and population, nevertheless show higher average income levels in a more concentrated urban setting. This mass of potential consumers facilitates both the distribution of product and the marketing of new snack lines.

A notable example is Hong Kong. Hong Kong's inhabitants are urbanized, wealthy, and receptive to new foods. Hong Kong's consumer demand in year 2001 is responsible for generating snack imports valued at \$234 million from China (\$50 million), Japan (\$33 million), South Korea (\$21 million), and the U.S. (\$19 million).<sup>77</sup>

Table 8 also indicates that even though Japan, Taiwan, the Philippines, and East Asia, are showing declining demand for U.S. origin snacks in overall terms, this sort of aggregation of unrelated snack products, much like the case of Table 7, tends to mask good potential prospects for individual snack products.

A good example is popcorn, which in the case of Japan has seen dramatic growth (exceeding 200 percent) during the review period. Note that the U.S. currently enjoys substantial comparative advantages vis-à-vis other manufacturers within this sector.

### **Entry strategy**

Though the Asian market for American snack foods is highly segmented, U.S. exporters should be aware that regardless of country specific and sub-regional proclivities, a general entry strategy for the region can be formulated along the following lines.

To effectively launch and market imported snack products in these emerging markets, a number of hurdles need to be surpassed. U.S. exporters need to realize that foreign snack product acceptance decreases as the snack product moves away from metropolitan centers and principal distribution channels. Product appeal will be impacted by distance from major urban concentrations and by rural consumers' degree of isolation from more typically urbanized eating patterns. These factors in a number of developing countries may adversely impact the marketability of American snack products.

Within major urban centers American snack foods, as well as other extra-regional foreign snacks, often suffer from poor price competitiveness against local counterparts due to the high margins on imported goods. Import taxes, tariffs, and non-tariff barriers further exacerbate the foregoing and have led a number of processed food product exporters to attempt to circumvent such barriers by producing their products locally.

Should this not be economically feasible for small-to-medium sized U.S. manufacturers wishing to expand their sales in the Asia – Pacific region, they should contact reputable importers and/ or distributors. These local contacts will be of assistance with paperwork relating to customs duties, import certificates, labeling, etc.

U.S. exporters interested in Asia should focus on product innovation and variety to compensate price inconvenience related to shipping and customs duties on landed goods.

Product features to keep in mind when trying to develop these markets are:

- 1) Product quality and product safety;
- 2) Product freshness;
- 3) Packaging: easy-to-handle, brightly colored packages influence reflexive/ compulsive purchase decisions, especially among younger consumers of snacks;
- 4) Overall value of the product versus that of local counterparts.

## China

In the Asia – Pacific region, China with 23 percent of its population of nearly 1.3 billion falling within the critical 0 – 14-year age group, stands out as the largest potential market. Like a number of other countries in the region, China has experienced in recent years rapid growth, urbanization, and increased exposure to Western culture.

The best market opportunities at this moment reside with China's small but rapidly growing urban middle class. Sandwiched between the country's "nouveaux riches" and the hundreds of million of others that make up the rural population, factory workers and jobless, China's urbanized middle class by some estimates may well exceed 200 million people.<sup>78</sup> This segment of the Chinese population finds itself concentrated in the cities of Shanghai, Beijing, Shenzhen and Guangzhou. The sheer size of the Chinese middle class, combined with Asia's fastest growing economy, should not be disregarded as a worthwhile potential market for snack food exports.

Rising average annual incomes accompanied by ever-increasing exposure to the West and its "exotic foreign" taste sensations is contributing to gradually modify consumer preferences and eating habits among the middle class. In the process, the middle class is slowly defining an urban cosmopolitan identity for itself as a byproduct of its acceptance of modern western products and consumerism.

*Tdctrade* reports that recent survey results of Beijing's snack food consumer market confirm that the principle strata of snack consumers are young people (normally defined for statistical purposes as falling between 15 and 24 years of age), followed by children.<sup>79</sup> Consumers were found to demand that snacks have not only a nice texture, but be also a nutritious low calorie food that keeps one slim while simultaneously providing a stimulus according to the survey.<sup>80</sup> Evidence indicates that most consumers (80.5 percent) purchase snacks mainly in supermarkets due to exposure to supermarket advertising in conjunction with ads seen in school, on television, on the Internet or through cartoons.<sup>81</sup> The survey also showed that consumers were found to be more receptive to a product if it was nicely packaged and accompanied by either a free gift, involved free tasting or provided extra content without increasing the price.<sup>82</sup>

The demand for, and acceptance of American and other western-style snack products by Chinese middle class is overshadowed by the bulk of the population's continued preference for traditional savory snacks. To date, outside of the major urban population centers and especially among the older segments of Chinese society, Western snack foods have made limited inroads.

Opportunities, however, exist for American manufacturers and suppliers of savory snacks already experienced with ethnic marketing in the United States. These manufacturers and distributors stand to make inroads into the local market by taking domestic preferences into consideration when developing and marketing their particular products for export to China.

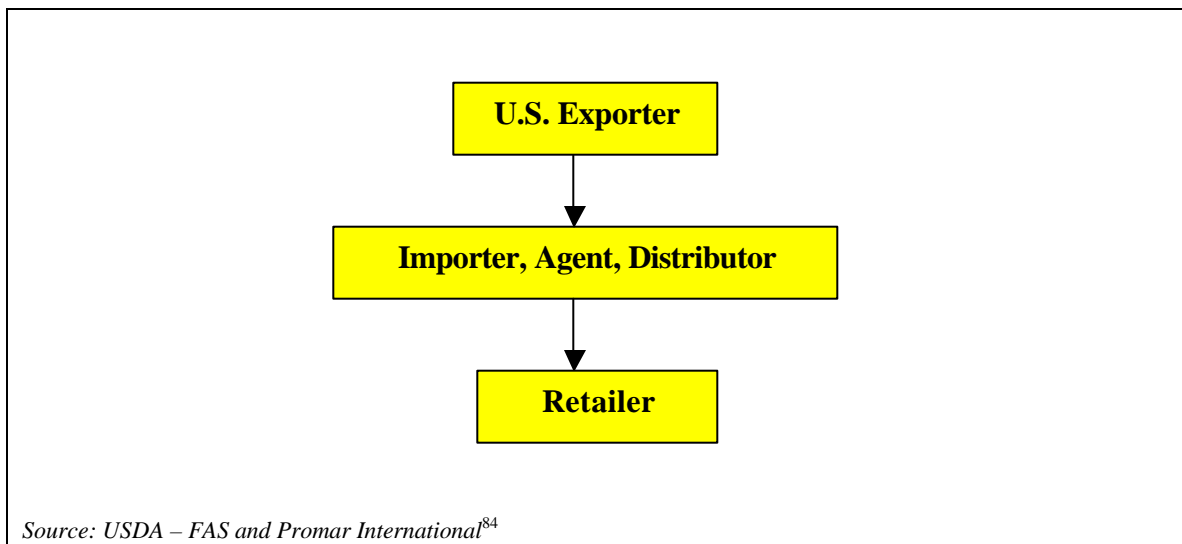
Exporters should realize that what passes for ethnic Chinese in the U.S. is not always readily recognizable as being Chinese in China. Research into local tastes, which do vary significantly between regions, and packaging preferences, is recommended. Product distribution, given the vastness of the Chinese state, also requires careful analysis.

Common caveats associated with entry into the Chinese market, as is the case with a number of other Asian markets, pertain to levels of transparency and market access. High tariff barriers levied against fully processed goods in the region as a whole have often forced potential exporters to focus on either produce or food ingredient.

Note that China's food laws and sanitary and phytosanitary (SPS) barriers are difficult to negotiate. There is unequal enforcement between the central government and the 23 provincial governments, and in this sense it is often hard to know what is "on the books." The establishment of strong relationships with local firms is essential in this high-risk, tricky, and continuously changing marketplace.<sup>83</sup>

## Exporter Marketing Channels

### China



Normally Chinese retailers do not actively source their products. *Promar International* reports that retailers prefer to wait to be approached by manufacturers or distributors while largely refraining from directly buying from foreign suppliers.<sup>85</sup> However *Promar International* does clarify that they have found that Chinese retailers are nevertheless willing to try new brands if made aware of their benefits and superiority to others.

Other significant actors and factors that impact directly the import of snack foods into Chinese market are China's Customs Administration and the country's network of "good

relationships or *guanxi*.” The latter act as facilitators to ensure a business encounters as few difficulties as possible. It is a cultural norm that is pervasive throughout China.<sup>86</sup> Note that in the Chinese business world *guanxi* is a network of relationships among various parties that cooperate together and support one another. This perfectly legal practice subscribes to the notion of “You scratch my back, I will scratch yours.”<sup>87</sup> The Chinese prefer to conduct business with people they trust and will favor these to others. *Guanxi*, with its regular exchange of favors, is the means by which the trustworthiness of both companies and individuals is established to facilitate smoother business dealings.<sup>88</sup>

China’s recent accession to the *World Trade Organization* (WTO) will increase the competitiveness and accessibility of imported food products. For American exporters of snacks to maintain and increase market share in China’s large and complex market, they should focus on the new generation of young cosmopolitan consumers.<sup>89</sup>

### **Hong Kong Special Autonomous Region (SAR)**

Despite East Asia’s financial fallout, Hong Kong’s residents continue to remain some of the world’s wealthiest and most receptive consumers of exotic foreign snack foods. The overall snack food sector continues to be lucrative given high margins combined with growing consumer demand for new varieties of snack products.

Popular snacks are dried fruits, nuts and potato chips. Dried meat and seafood snacks are also quite popular, but local manufacturing largely meets demand for these.

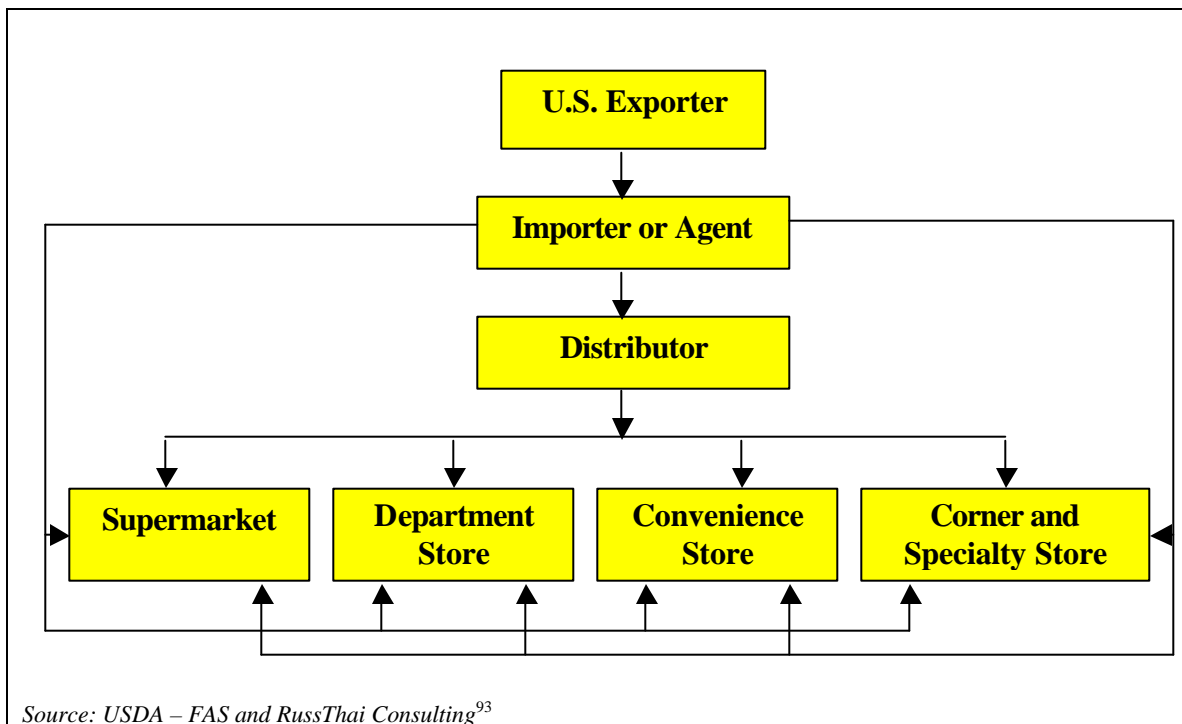
Japanese exporters and local manufacturing dominate the potato chip snack market. Nevertheless, Western snack retain a hold over the dried fruit and nuts (i.e. pistachios) snack market, as well as are secondary sources for potato chips. Among the Western snacks, *Frito-Lay* and *Pringles* have been American import leaders.<sup>90</sup>

Japan’s *Calbee Foods* and Hong Kong’s *Four Seas Mercantile* (Japan-based) are the predominant snack food players. Market dominance is a result of having established comprehensive distribution networks through long-term market development strategies.<sup>91</sup>

Aggressive promotion efforts by the major suppliers combined with getting product to market via supermarkets and convenience stores have been key in developing demand for potato chips. Within this snack sector, younger consumers are increasingly consuming potato chips in casual settings such as pubs, bars, Karaoke bars, and nightclubs.<sup>92</sup>

## Exporter Marketing Channels

### Hong Kong Special Autonomous Region (SAR)



Exporting product to Hong Kong is usually less complex than is the case with most of the rest of Asia. Normally the U.S. exporter's product will only have to traverse two layers before reaching the individual snack consumer.<sup>94</sup>

### South Korea

Like other Asian consumers, South Koreans are increasingly seeking more food products of international taste, higher value, safer quality, and improved convenience. This type of consumer demand translates into growing opportunities for imported consumer ready foods such as snacks through the retail chain.<sup>95</sup>

Large retailers and convenience stores have become in recent years the major retail channel for imported foods. As the *Republic of Korea Retail Food Sector GAIN Report* indicates, Korean receptivity to imported processed foods is made all the more apparent by the fact that these imports account on average for 24.1 percent of sales in processed foods sections of the country's hypermarkets.

Much like the case of other markets in Asia, South Korea is seeing rapid growth of modern retailing formats as its population becomes more urbanized and loses ties to the countryside. This, and the country's familiarity with American products, and most

importantly a younger generation's affinity for trendy western tastes, represents distinct advantages for those American snacks that can overcome certain Korean biases.

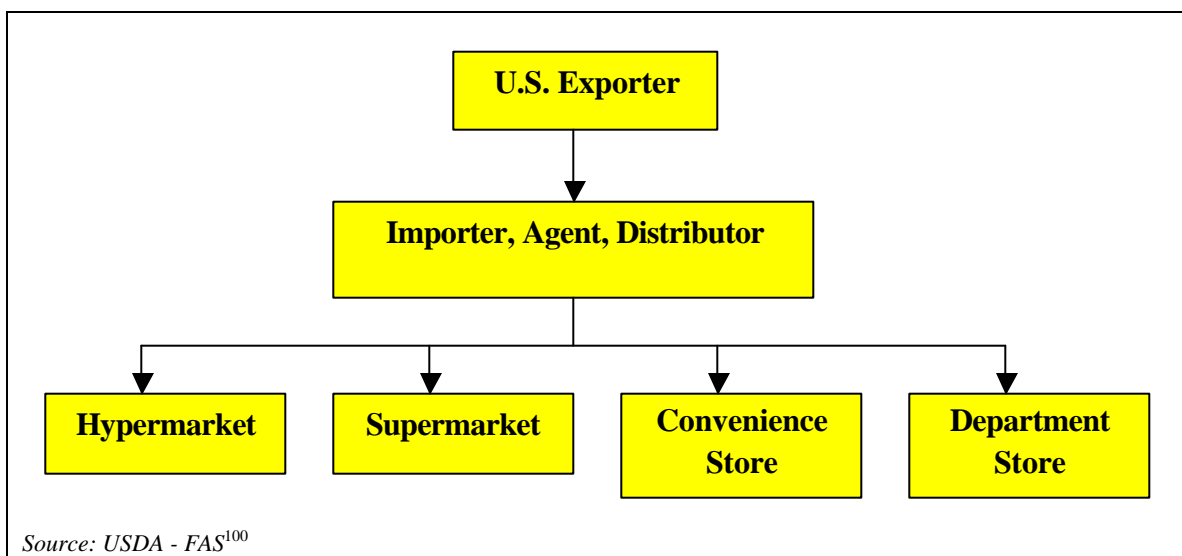
Recent consumer survey work undertaken by *Publicis Groupe's Leo Burnett Worldwide* has found that younger Korean consumers tend to be more anti-Western in their beliefs than their older peers.<sup>96</sup> The survey results point to the fact that South Korea is probably the most difficult country in Asia to sell global brands given the presence of robust indigenous brands.<sup>97</sup> Nevertheless, younger consumers can be won over, as is indicative by their support for both *McDonald's* and *Coca-Cola* at a time when consumers in other countries are boycotting their products, if the American (snack) exporter is willing to market the product in a manner that it is readily seen as meeting both the needs of the individual consumer while having Korea's interests at heart.<sup>98</sup>

To overcome such barriers it is recommended that U.S. exporters new to the Korean snack foods market work with a reputable Korean importer. These importers can provide a wealth of market knowledge, guidance with local business practices, assistance with trade related laws, access to established distribution systems, and most importantly sales contacts with existing and potential buyers who would otherwise be reluctant to try new snack products.<sup>99</sup>

To overcome entry barriers U.S. exporters are advised to conform exactly to Korean labeling and documentation requirements. Thorough market research and the establishment of strong relationships with reputable importers will also assist U.S. snack exporters newly entering this market to better navigate Korea's complex tariff and tax codes.

## Exporter Marketing Channels

### South Korea



U.S. exporters seeking to supply the Korean snack foods market need to be aware that the majority of mass retailers do not import food products directly. Analysts concur that it is common for managers of mass retailers to prefer to deal with specialized importers. In this way they can defer risks to the specialized importers. Nevertheless major international retailers such as *Wal-Mart*, *Carrefour*, and *Costco* do import directly through their own international sourcing arms.

## Japan

The U.S. has for years been Japan's largest source of snack foods (i.e. potato chips/ crisps and corn chips). In year 2001, the U.S. snack foods exports commanded an impressive 35.6 percent share of the Japanese market and were valued at approximately \$2.0 billion.<sup>101</sup>

As in other countries, the pace of life in modern Japan has increasingly become hectic and tastes more internationalized. This trend combined with the well-established reputation and history of the U.S. as being a reliable supplier of food inputs, has generated a positive image for American food products.<sup>102</sup> Favorites among the imported snacks are potato and corn-based snacks, as well as snack nuts and crackers. Note that taste preferences do vary seasonally.

Key market drivers in Japan, a country whose own lack of arable farmland and high production costs have made it a net importer of foodstuffs, increasingly emphasizes convenience, product variety, exotic foreign tastes, and good-for-you qualities. Products that are marketed in a way that they blend in with Japan's pop culture, especially its comics and cartoons, stand to benefit from greater product acceptance.

Japan represents both opportunities and challenges for U.S. exporters of snack foods. Though this market is generally receptive to American-style snacks and their variety of flavors, it is a mature market (i.e. as evidenced by increased consumer choices and more discerning consumers) that is impacted by a number of issues that make it increasingly challenging for landed U.S. snacks. Some of these challenges pertain to higher costs for U.S. exports due to a strong dollar compared to the yen, American-style snack foods produced locally and regionally by foreign subsidiaries of U.S. manufacturers seeking to lower production and transportation costs, as well as tighter Japanese government regulatory enforcement that makes exporting to Japan difficult.

In recent years Japan's Ministry of Health has sought to prevent the importation of food imports containing biotech products that have not been approved for use in Japan. In addition, mandatory labeling for approved biotech products is now also required.<sup>103</sup> Mandatory labeling has occasionally impacted the marketability of imported U.S. snacks.

For U.S. snack manufacturers and distributors seeking to enter the Japanese market for the first time, it is recommended that they visit the country and appraise the market's

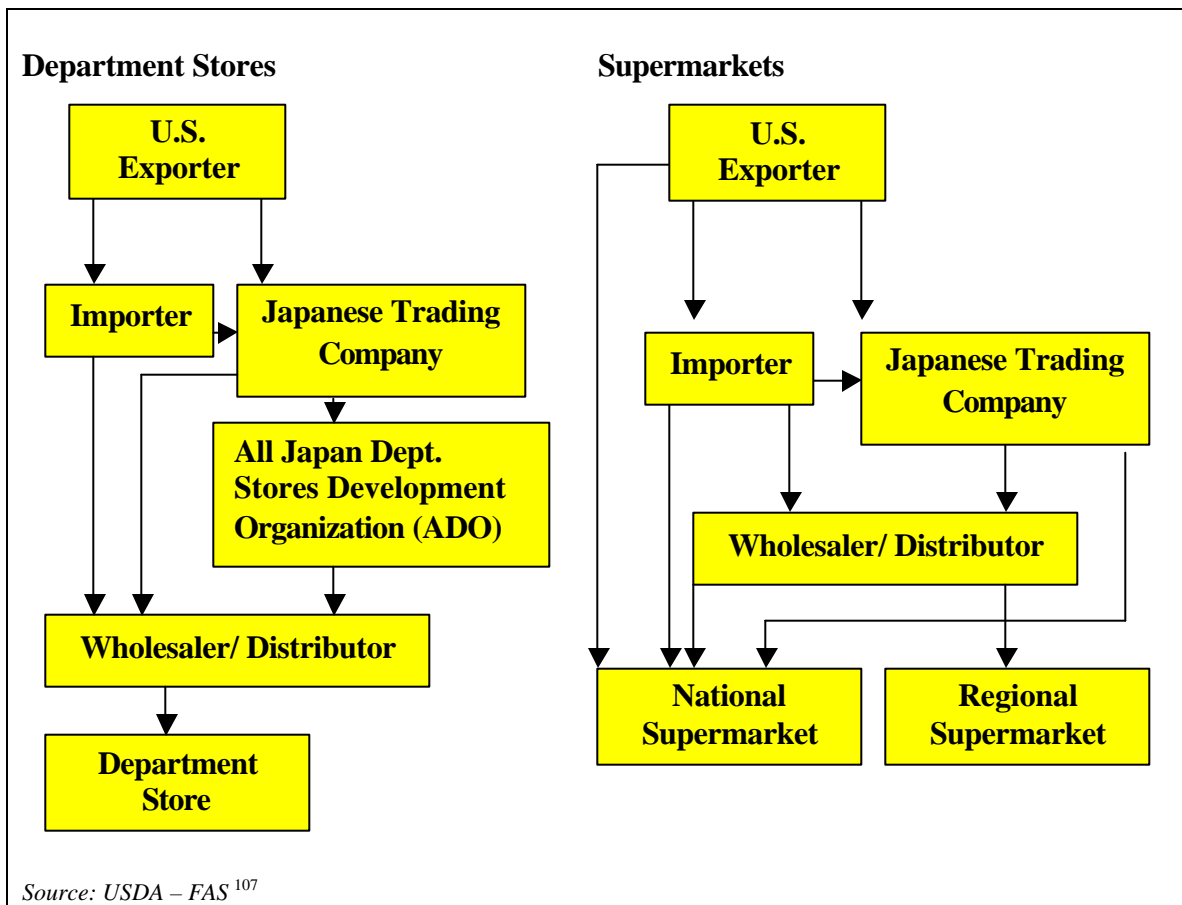


potential receptivity and profitability for their snack products.<sup>104</sup> Barring this an attempt to meet Japanese buyers can be made at snack food trade shows in the United States. In either case an emphasis should be placed on establishing contacts and developing good relationships with Japanese importers of snacks. These contacts will be of assistance in determining the products' sale potential and can help to clarify how they normally source their current snack imports. Comprehensive research into Japanese food laws and regulations are as important as following up requests for samples and prices.<sup>105</sup>

Product packaging must be adequately labeled and account for the needs of this highly service-oriented culture. The snack must not only be savory and fresh tasting, but also well packaged while still being marketable at a competitive price. U.S. exporters need to keep in mind that given the yen's weakness, consumers have increasingly focused in recent years on getting quality product at a reasonable price. Packaging should be tailored to meeting the end consumer's need as it pertains to portion and container size.<sup>106</sup>

## Exporter Marketing Channels

### Japan



Japan's multi-layered distribution system can best be navigated with the help of an effective reputable agent or distributor who understands the marketplace for the product being landed.<sup>108</sup> Other intermediaries, such as brokers and dealers, can also be utilized.

Given the intricate nature of undertaking export operations to Japan, U.S. exporters may find it beneficial to piggyback onto the existing distribution channels of a Japanese trading company, manufacturer, or wholesaler in order to sell their snack products in Japan. Since Japanese trading companies control roughly 60 percent of the country's imports, and act as intermediaries between buyers and sellers at all stages of the product flow, the benefits of this option are apparent when the wholesaler or trading company controls the distribution channels of a product.<sup>109</sup>

The continued weakness of the yen vis-à-vis the U.S. dollar has contributed toward a rationalization of Japan's traditional distribution system. In Japan's troubled economy, large retailers are increasingly looking at eliminating inefficient and unnecessary intermediaries as well as inland transportation costs that inflate the price of domestic and imported products.

As the *Japan Retail Food Sector GAIN Report* indicates, these issues are driving retailers and suppliers to develop more efficient consumer response systems that focus on optimizing costs and deliverable quality through the establishment of long-term value chain relationships.<sup>110</sup> This report recommends to U.S. exporters to consider cross-border electronic commerce, strategic alliances with freight forwarding consolidators and distribution companies in addition to private-label alliances with Japanese companies as means of remaining competitive.<sup>111</sup>

## **Philippines**

The Philippines continues to offer American snack food exporters interesting commercial opportunities. Filipino consumers are quite familiar with U.S. snacks given the pervasiveness of the cultural inroads made by a century long relationship between both countries. Many Filipinos have either lived in the United States or have relatives or friends that do so.

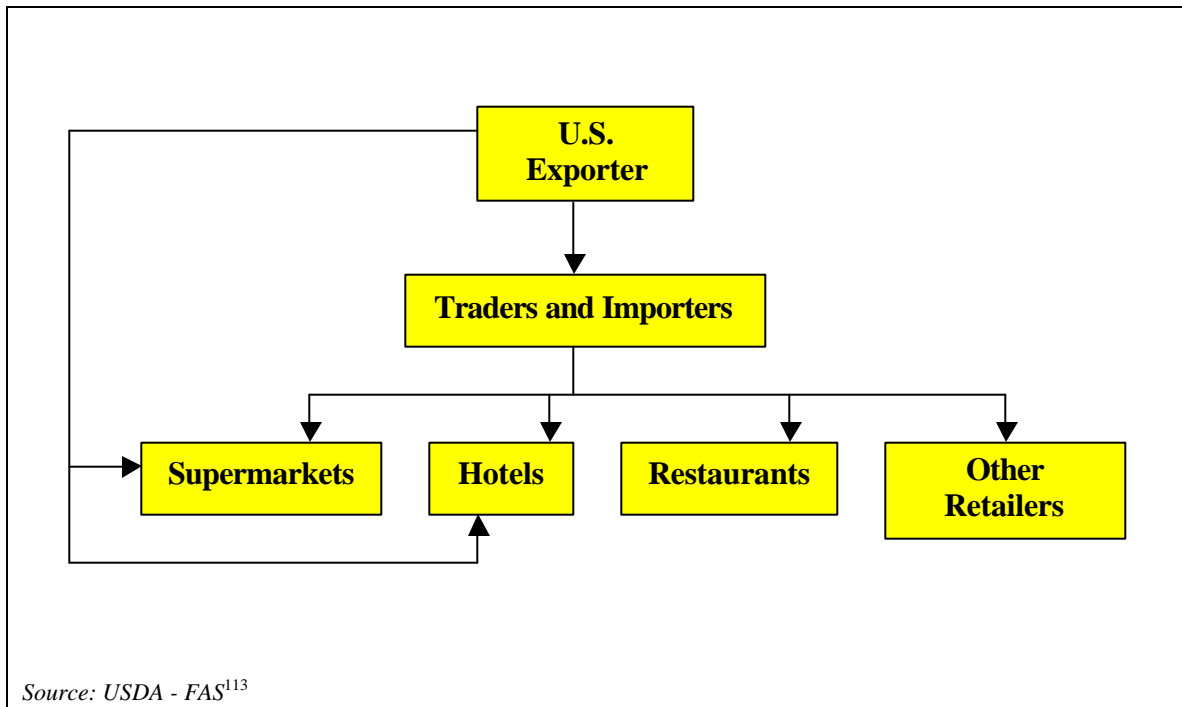
The Philippines' culture is so closely linked to that of the United States that trends that are popular stateside quickly appear in the Philippines. Consequently, Filipinos are acquiring a taste for healthy foods that are low-calorie, low fat, or provide low-salt benefits. Nevertheless, Filipinos continue to favor sweeter-tasting foods than is the case with most American consumers.<sup>112</sup>

Consumers of snack foods in the Philippines normally are teenagers and young adults. This segment of society accounts for approximately 25 percent of the country's overall population. These consumers continuously demand that manufacturers provide new flavors and new brands on an ongoing basis.

The growing demand for Western-style snacks, increasingly popular for lunches particularly among students and workers, should continue to fuel consumption levels in light of economic contraction.

## **Exporter Marketing Channels**

### **Philippines**



The distribution system for imported consumer-ready foods in the Philippines is quite complex. The most important markets for imported snacks are mainly concentrated in the country's urban centers.

U.S. exporters should note that the complexity of the Filipino marketplace makes it difficult to maintain exclusive agent agreements. In this sense products enter the country through a myriad of different channels. The foregoing situation is aggravated by the central government's hard-pressed legal system's inability to stymie the flow of imports not sanctioned by exclusive agent agreements.<sup>114</sup>

## India

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Although India does not normally form a part of East Asia, it is included as a separate sub-section given the country's size, number of similar consumer demands and interests, as well as overall market potential.

With a national population surpassing 1 billion people, and a middle class estimated to number anywhere from 91 million upwards to 250-300 million, India represents a market with great potential. Not only do the Indian people represent 16 percent of the world's total population concentrated in one country, nearly half the country's population is under 20 years of age. Most analysts familiar with the Indian market conclude that the latter will assure a pool of potential consumers for decades.

Indicative of the potentialities of this market is *Datamonitor's* assessment that snack sales in India were approximately \$307.7 million in year 2001 and are expected to reach \$459 million by 2006.<sup>115</sup> In terms of sales, *Datamonitor* indicates that India is one of the largest markets in Asia after Australia, China, Japan, and Korea.<sup>116</sup>

*Datamonitor* maintains that potato chips account for approximately 85 percent of all snack sales.<sup>117</sup> Yet what is particularly relevant about this statistic is that the chips market is, according to *Indiainfoline*, still largely dominated by the unorganized sector (local unbranded manufactures).<sup>118</sup>

By American manufacturing standards, overall product quality within the unorganized sector is low. Fat content ranges from between 20 to 40 percent, while average moisture content runs as high as 3 to 4 percent.<sup>119</sup> Quality is adversely affected by the high sugar content of potatoes utilized by most local manufacturers, as well as inefficient packaging methods (i.e. product is still sold loosely or in ordinary poly-pouches).<sup>120</sup>

Notwithstanding poor product quality, *The Hindu Business Line* reports that significant numbers of consumers nevertheless continue to favor Indian-style snack foods.<sup>121</sup> This taste preference has motivated foreign subsidiaries of food manufacturing companies, such as *Frito-Lay India*, to tailor their branded product lines to local tastes and preferences. *Frito-Lay* has married more efficient product and quality control methods with a number of products specifically designed with the Indian consumer in mind. In addition to flavored chip products such as *Magic massala*, *Peppy pudina*, and *Tangy tomato*, it has launched *namkeens* (traditional Indian fried foods) under the *Lehar* brand targeting the adult consumer.<sup>122</sup>

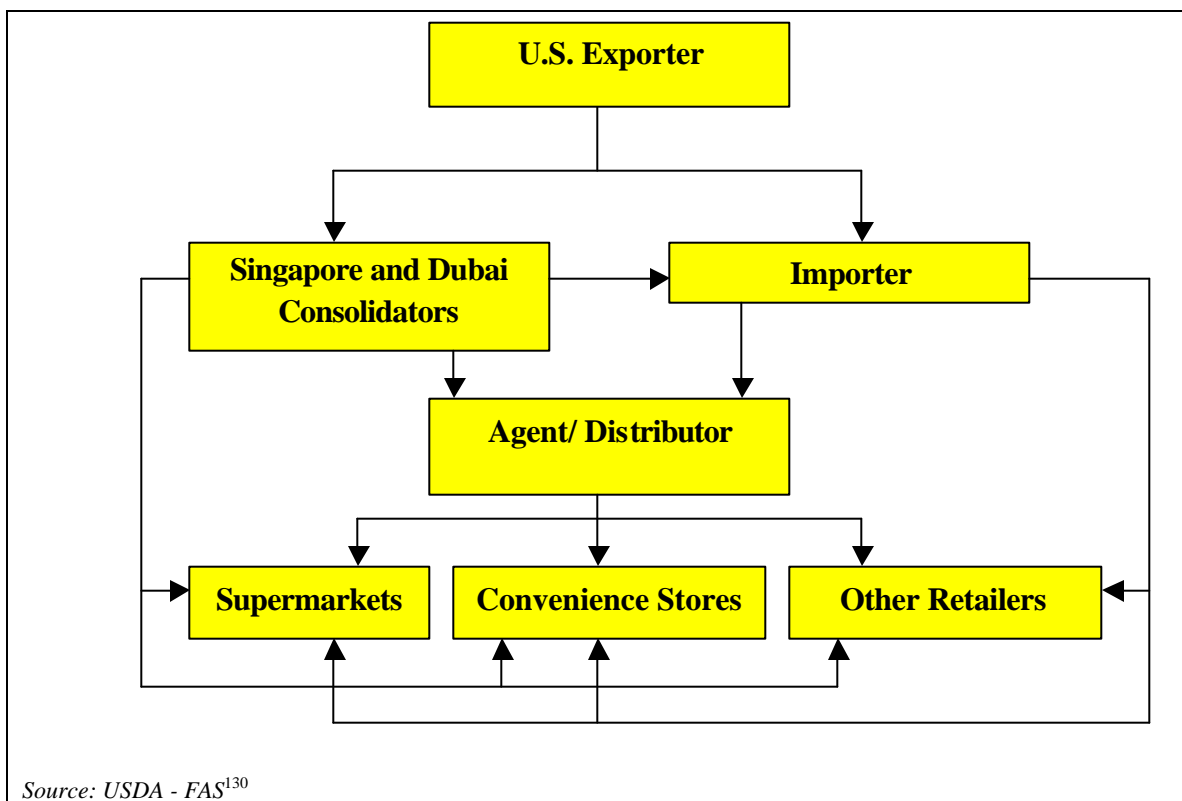
U.S. exporters contemplating entering the branded Indian snack market should realize that tastes vary substantially from one region to the next. For example, the banana chips that are immensely popular in the South are not as popular in other areas of the country, while snacks like *paaprichaat* (wafers and boiled potato doused in curd and sauces) are much more popular in Eastern India.<sup>123</sup>

Best prospects for U.S. exporters of snack foods reside in catering to the more affluent middle- and upper-income groups since other consumers have been known to reject international flavors. Their higher levels of literacy and urbanization make them more receptive to imported processed and convenience food products, as well as easier to reach given the country's relative lack of infrastructure.<sup>124</sup> This greater exposure to the outside world affords urban consumers according to *Promar International* a wider variety of processed food products, which translates into enhanced commercial opportunities for processed food companies.<sup>125</sup> *Datamonitor* indicates that potato chips/ crisps, snack nuts, and savory snacks easily outdistance popcorn-based snacks.<sup>126</sup>

Indian snack consumers, much like those in other marketplaces, are impulse buyers. Manufacturers of branded products consequently need to continuously provide consumers with a wide variety of products to maintain customer interest and brand loyalty.<sup>127</sup> Consumers are increasingly valuing health and food safety issues, perceiving according to *Promar International* processed foods as being “cleaner” and of higher quality than unbranded and unpackaged foods.<sup>128</sup> Outside of the more affluent middle- and upper-income groups, most consumers still remain highly price sensitive. Financial constraints do force the bulk of the population to forgo product quality and hygiene in favor of lower prices.<sup>129</sup>

## Exporter Marketing Channels

### India



As the *India Market Development Report – Exporter Guide* indicates, most importers use a three-tier distribution structure consisting of distributors, wholesalers, and retailers.<sup>131</sup>

Gross margins are generally reported to range between 4 to 5 percent, 1 to 2 percent, and 5 to 10 percent respectively within this structure.<sup>132</sup> U.S. exporters considering entering the Indian snack market should take the foregoing into account given that it will impact their products' price competitiveness vis-à-vis local manufacturers.

India's major importers are primarily concentrated in Mumbai, Calcutta, Delhi, and Goa. These importers often source imported food products transshipped through Dubai or Singapore. Note that though the illegal practice of under invoicing will likely continue, the consolidation of trade liberalization policies according to The *India Market Development Report – Exporter Guide* should contribute to reduce the overall level of imported foods being smuggled.<sup>133</sup>

U.S. snack exporters wishing to introduce new products in the Indian marketplace will confront food sector laws that encompass such diverse issues as the use of food additives and colors, labeling requirements, packaging, weights and measures, and phytosanitary regulations among other regulatory issues. Depending on their particular product lines, U.S. exporters should gain familiarity with the following major food laws overseen by the Central Committee for Food Standards of the Directorate General of Health Services, Ministry of Health and Family Welfare:

- 1) The *Prevention of Food Adulteration Act (1954)* and other *PFA* rules.
- 2) The *Standards of Weights and Measures Act (1976)* and the *Standards of Weights and Measures (Packaged Commodities) Rules*.
- 3) *Destructive Insects & Pests Act (1914)*; *Plant Quarantine Rules*; and *Plants, Fruits and Seeds (Regulation of Import into India) Order (1989)*.

Given that the *Prevention of Food Adulteration* standards apply equally to both domestic and imported foods, U.S. exporters should always verify these with their Indian customers before shipping goods. These standards have been known to not always be up to date with recent advances in the food-processing sector.<sup>134</sup> The standards are also drafted in a manner that at times go beyond minimum product quality specifications, such as prescribing recipes for how food products are to be manufactured.

Final import approval is subject to India's rules and regulations as interpreted by border officials at the time of product entry. Port health authorities will determine if the product conforms to the PFA standards and regulations usually on the basis of a visual inspection and record of past food imports given limited food quality testing facilities.<sup>135</sup> The import of a new, unfamiliar product is likely to face clearance delays.

## The Africa – Middle East Snack Food Market

The Africa – Middle East market offers U.S. snack food exporters opportunities for servicing a growing urban population that recognizes American quality and brand-name appeal. Yet, U.S. exporters should realize that these markets are not risk-free. Though many of the countries possess mineral riches and valuable resources, wealth disparities, political instability and malfeasance, hamper the potentialities of many of these markets.

Not only are there discrepancies of wealth, but also varying degrees of urbanization (table 9). Like the case prevailing in other areas, urban markets will concentrate consumers with greater disposable income than is the case of rural consumers. Urbanites tend to be more exposed to foreign ways and will be thus more inclined to buy imported snacks.

### Demographics

<b>Table 9 – Africa – Middle East demographics and imports of U.S. origin snack foods.</b>						
	<b>Nigeria</b>	<b>Kenya</b>	<b>South Africa</b>	<b>Egypt</b>	<b>Saudi Arabia</b>	<b>U.A.E</b>
<b>Population (Millions)</b>	129.9	31.1	43.6	71.2	24.0	3.5
<b>Urban</b>	36%	20%	54%	43%	83%	78%
<b>GNI PPP p/capita 2000 (U.S. \$)</b>	800	1,010	9,160	3,670	11,390	19,410
<b>U.S. imports Jan. – Dec. Comparisons (1000 Dollars)</b>						
<b>1996</b>	105	9	545	353	4,402	812
<b>2002</b>	68	18	484	448	10,682	6,858
<b>% change</b>	-35%	100%	-11%	27%	143%	745%

Values are for imports of meat snacks, popcorn, potato and corn chips, cookies and sweet biscuits, gingerbread, and snack nuts.

Source: USDA – FAS – BICO Export Commodity Aggregations based on Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics.<sup>136</sup>

Both Saudi Arabia and the United Arab Emirates during the review period showed dramatic growth in demand for U.S. origin snack foods. In the case of Saudi Arabia, the most spectacular growth has occurred with regard to demand for potato chips/ crisps

where demand has gone from just under \$300 thousand in exports in 1996 to roughly \$7.9 million by year 2002. Popcorn has risen from a 1996 level of approximately \$750 thousand by over 126 percent to over \$1.7 million in 2002.

Similarly the U.A.E. has seen major growth during the 1996 to 2002 review period. Particularly strong has been the Emirates' demand for potato chips/ crisps, followed by popcorn, and corn chips – reporting increases of 1,559, 592, and 292 percent respectively.

## **Entry Strategy**

The best means for initially penetrating these markets is by targeting large supermarket chains that will cater to the more affluent segments of society and expatriates.

Reputable importers and/ or distributors will be of invaluable assistance in landing product. As is the case with other countries, these will be able to assist with the latest import clearance requirements in addition to providing insight to what sells in their particular country.

In general terms U.S. exporters and distributors interested in exporting to Africa and the Middle East should focus on innovation and product variety in order to compensate for price inconvenience related to transportation costs and customs duties on landed goods.

U.S. exporters should also be aware that as a consequence of the Second Gulf War (2003), and America's enduring friendship with the State of Israel, anti-Americanism has expanded within the Africa – Middle East region. This propensity may be channeled increasingly along economic lines (i.e. the boycott of American goods).

Notwithstanding increased anti-Americanism, the Middle East and Moslem North Africa (excluding Libya) will continue to be viable markets for U.S. exports. The Middle East, with approximately 4 percent of the world's population, will continue to import roughly 15 percent of world's foodstuffs for the foreseeable future.<sup>137</sup>

Middle Eastern states' high import dependence, due primarily to limited renewable agricultural resources, will continue to make the region as a whole attractive for U.S. snack food exports. Effective market penetration will be eased by meeting country specific product and packaging requirements, as well as by tailoring product marketing to meet local cultural norms.

Product features to keep in mind when trying to develop these markets are:

- 1) Product quality and product safety;
- 2) Product freshness;
- 3) Packaging: easy-to-handle, brightly colored packages influence reflexive/ compulsive purchase decisions, especially among younger consumers of snacks;
- 4) Overall value of the product versus that of local counterparts.



## Nigeria

Nigerians are receptive to U.S. origin food commodities, especially the value-added processed consumer foods. Consumers readily adapt to U.S. snack foods' tastes and usually identified these as being high-quality items not normally manufactured locally.<sup>138</sup> In particular what has evidenced growth in this market have been snacks such as potato chips, corn chips, and popcorn, which have supplanted gingerbread imports during the 1996 – 2002 period.

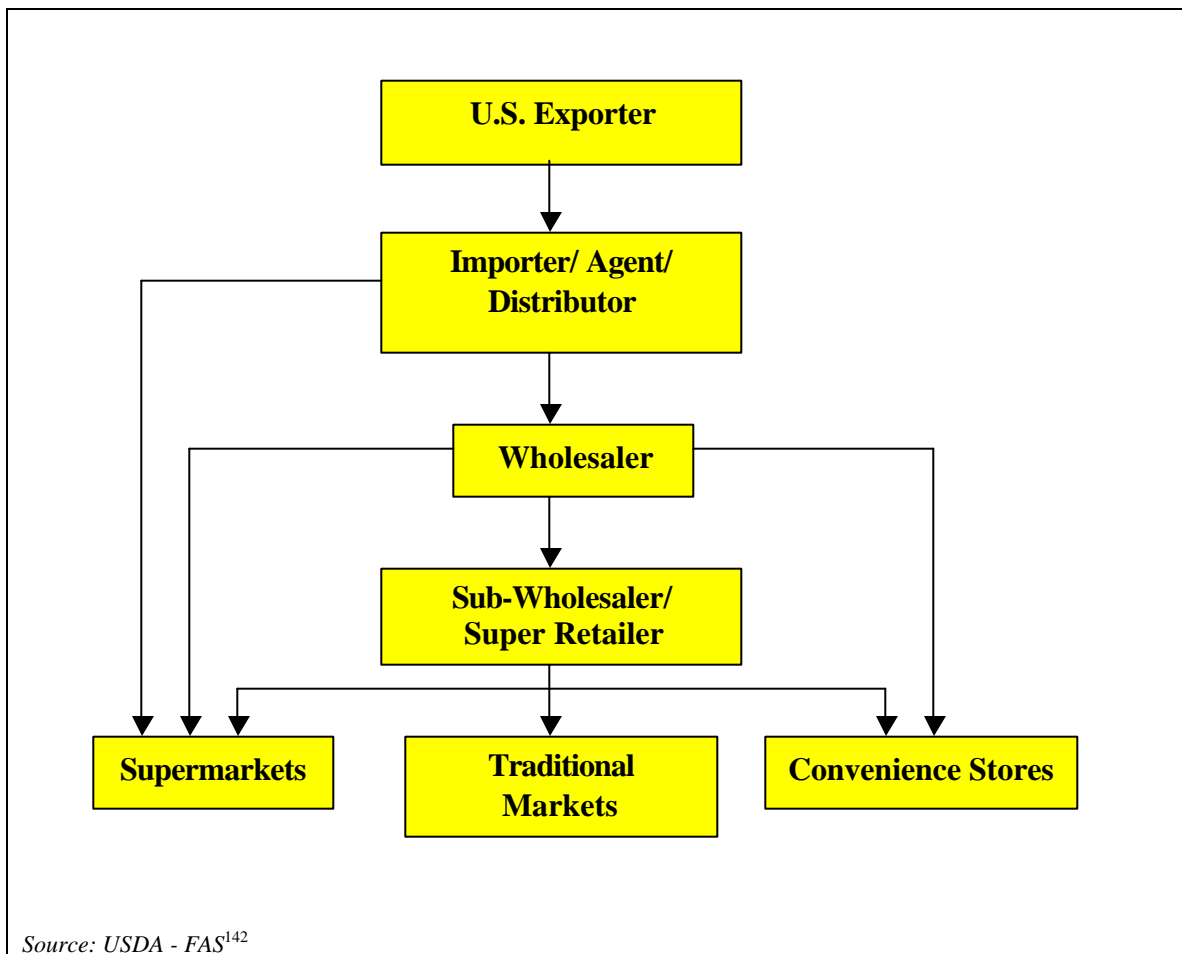
Much like the case in Egypt, supermarkets and convenience stores are becoming much more prevalent in urban areas. Rapid population growth, especially in the major urban centers of Lagos, Kano, Ibadan, and Abuja, has strained the subsistence agriculture sector's capability to keep up with demand. Increased food demand has forced the country to become a large importer of a number of food items.<sup>139</sup>

The *Nigeria Exporter Guide Annual 2002 GAIN Report* indicates U.S. exporters should be aware that Nigerian import duties for processed foods average around 45 percent, but for some products may range upwards of 75 percent.<sup>140</sup> High tariff duties have motivated many local importers to attempt to circumvent Nigeria's customs pre-shipment and destination inspection programs.

Illicit tariff avoidance practices besides colluding with exporters to under invoice, include shipping goods to third countries where consignments if need be are re-inspected, re-documented and then forwarded on to Nigeria.<sup>141</sup> Illicit tariff avoidance schemes by other exporters can affect U.S. exporters' ability to compete effectively in this market.

## Exporter Marketing Channels

### Nigeria



Opportunities exist for increased sales of U.S. high value food products in Nigeria. Notwithstanding such possibilities, U.S. origin snacks' market penetration may be stymied by a number of factors pertaining to overcoming buyer reluctance in addition to clearing the country's import hurdles.

Given the country's complicated pre-shipment and destination inspection procedures (a situation similar to that of other West African states), Nigerian importers prefer sourcing product primarily through European (60 percent) and Asian (18 percent) exporters instead of directly from the United States (5 percent). This preference is based on the flexibility shown by non-U.S. exporters to accommodate the Nigerian import-community's special documentation and product specification needs to bypass customs regulations and duties.<sup>143</sup>

Nigerian importers reportedly seek exclusive distribution agreements from exporters. In addition there is an increase in demand for mixed container load shipments.<sup>144</sup> Importers are anxious to reduce shipping and transaction costs, so they turn often to U.S. freight consolidators that can handle ordering and shipping needs.<sup>145</sup>

New-to-market U.S. exporters should note that the retail food sector in Nigeria consists of large supermarkets, convenience stores/ small groceries, and traditional open-air markets. These respectively account for roughly 5 percent, 40 percent, and 55 percent of total retail food sales.<sup>146</sup> Industry estimates report that for year 2001 the proportion of all retail sales of imported consumer-ready food products handled by Nigeria's supermarkets stood at close to 20 percent; the country's traditional markets and convenience stores account for approximately 40 percent each.<sup>147</sup>

Best prospects for U.S. snack exporters that wish to service this growing market, one that also spills over into those of neighboring countries is to appoint a reliable local distributor/ agent or representative. According to the *Nigeria Food and Agricultural Import Regulations and Standards Country Report 2003*, the local distributor/ agent or representative will register the imported food product with the appropriate Nigerian regulatory bodies, normally the *National Agency for Food and Drug Administration and Control* (NAFDAC), to introduce the snack product, and develop consumer demand.<sup>148</sup>

U.S. exporters should be advised that the NAFDAC has been established to protect and promote public health by ensuring the wholesomeness, quality, and food safety of foods consumed in the country.<sup>149</sup> All snack products fall within this agency's definition of a food product and thus are subject to registration.

## **Kenya**

Good prospects exist in Kenya for U.S. food and high-value agricultural exports according to the *Kenya Exporter Guide – Annual 2003 GAIN Report*.<sup>150</sup>

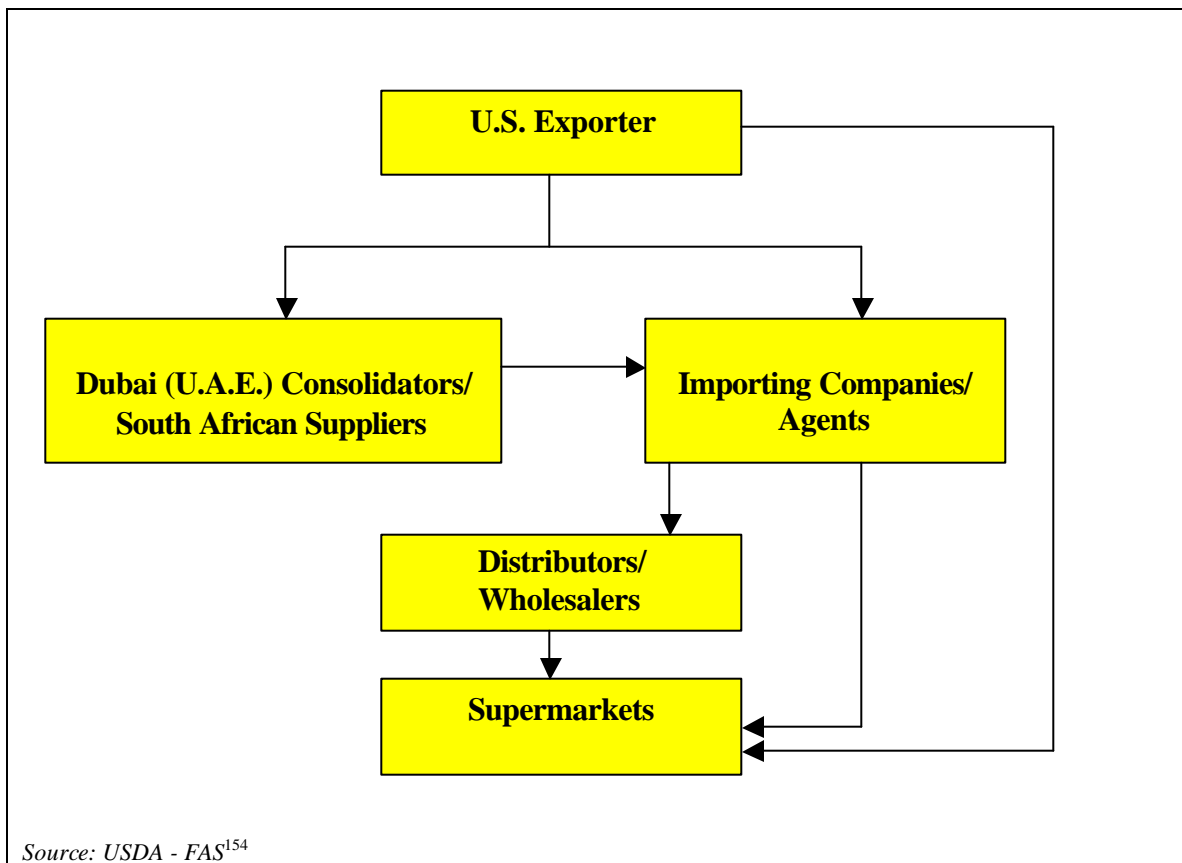
The best opportunities for U.S. exporters reside in targeting the country's urban markets, where middle-income earners make up approximately 59 percent of the population.<sup>151</sup> Product acceptance is further facilitated by the fact that most of the population of highly concentrated urban settings such as Nairobi, fall within the critically important 18 to 37 year age group.

Note that even though over half of Kenya's overall population is estimated to fall below the poverty line, the Kenyan market is by far the most economically developed in East Africa. This level of development has favored the expansion of a highly competitive supermarket industry.<sup>152</sup>

Local supermarket chains actively stock American high-value food products such as snacks and nuts. Primarily an expanding middle class, accompanied by the presence of a large expatriate community, drives Kenyan market demand for imported products.<sup>153</sup>

## Exporter Marketing Channels

### Kenya



Most processed foods are imported into Kenya primarily via consolidators in Dubai and or suppliers in South Africa. Given the distances and shipping costs involved there are few direct imports currently arriving from the United States.<sup>155</sup>

Since Kenyan import regulations for agricultural products have propensity to change frequently depending on local politics in conjunction with domestic supply and demand fluctuations, potential U.S. exporters are advised to maintain close contact with their buyers.<sup>156</sup> Kenyan importers, given the market's price sensitivity, for the most part will normally source smaller volumes of product from suppliers – potential U.S. snack exporters should be prepared to sell smaller lots than is customary in the United States.<sup>157</sup>

Note that imported foodstuffs must comply with the *Kenya Bureau of Standards* (KBS) norms. In the absence of KBS standards, goods will be required to comply with the *Codex Alimentarius* standards.<sup>158</sup>

## Republic of South Africa

As the *Republic of South Africa – Exporter Guide Annual 2003 GAIN Report* indicates, South Africa's market-oriented agricultural economy serves as a gateway to the rest of Southern Africa.<sup>159</sup> The country enjoys a number of benefits and privileges associated with its membership in the *Southern African Customs Union* (SACU) and in *Southern African Development Community* (SADC) *Free Trade Agreement*.

Particularly attractive for U.S. exporters of snack foods is the fact that this middle-income, developing country is endowed with well-developed financial, legal, communications, and transport sectors that support a modern and efficient product distribution system. Nevertheless the South African Rand's depreciation in recent years combined with a general slowing of the international economy in year 2001 has contributed to a slowdown in demand for U.S. origin products.

Consumers nevertheless do continue to favorably view U.S. products and see these as being of high quality and variety. Consequently local importers seek American suppliers that can offer a combination of reliability and quality at competitive prices. Potential U.S. snack exporters should note that niche market development opportunities do exist even though a number of international food processing companies such as *Pepsico's Frito-Lay/ Simba Group*, *Proctor & Gamble*, and *Nestle* have an established presence in the country.

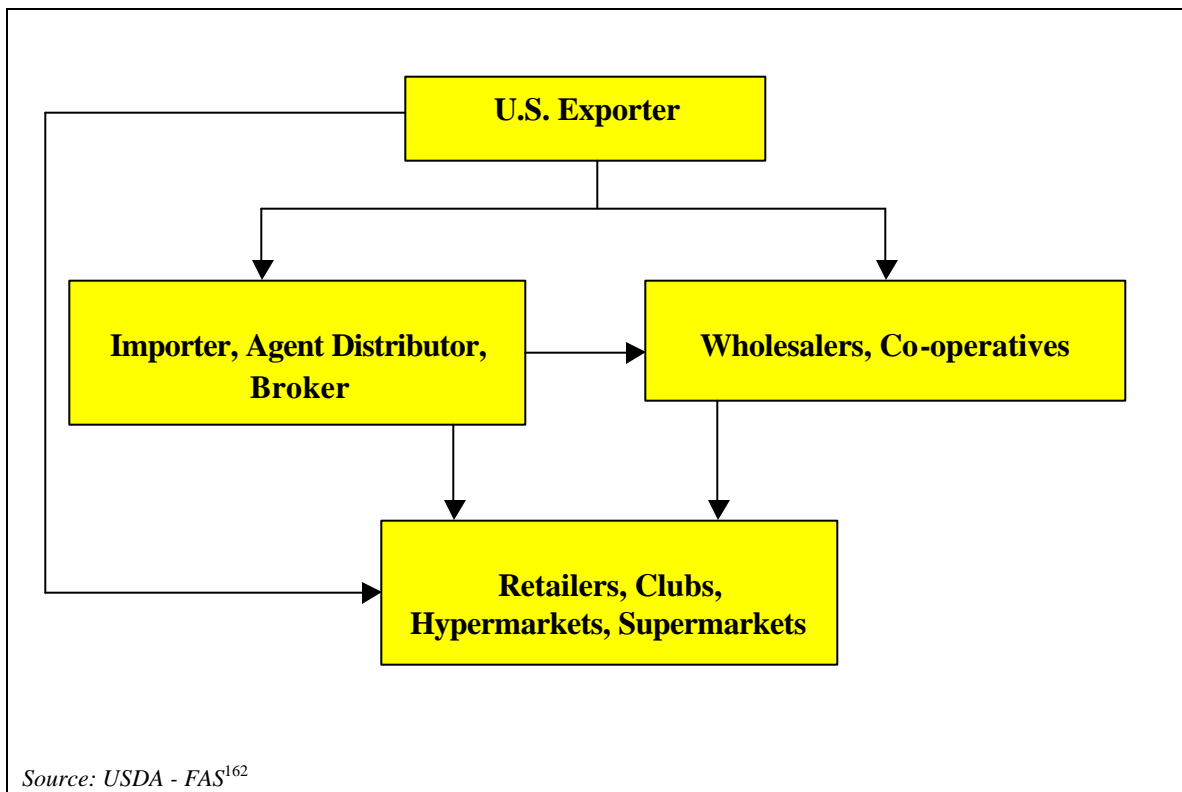
For U.S. snack exporters a favorable trend in recent years has been the increased proclivity by local supermarkets in stocking more imported specialty products. Even in light of consumers' varying degrees of brand loyalty, and purchasing decisions based on price and product quality, there exist possibilities for increased sales of imported snack foods.

Demand for snack foods in the past couple of years has been growing steadily as a result of product innovation and new launches. Clearly indicative of this has been the *Simba Group's* unbridled success obtained with its *Pokémon* promotion. According to *Euromonitor* this promotion was the main driver of growth (3.5 percent volume growth between 2001 – 2002) within the chips/ crisps sector in year 2001.<sup>160</sup>

South Africans show a fondness for spicy tomato, cheese, chutney, onion, and beef flavorings. *Euromonitor* indicates that the type of flavoring, rather than the actual type of savory product drove product purchases in year 2002.<sup>161</sup>

## Exporter Marketing Channels

### Republic of South Africa



In recent years hypermarkets have greatly impacted and disrupted the traditional distribution chain in a country where over 90 percent of the national population is concentrated in areas surrounding the major urban centers of Cape Town, Pretoria, Johannesburg, Port Elizabeth, and Durban.<sup>163</sup> South African hypermarkets, conveniently located in the more affluent suburban shopping centers and malls, largely favor purchasing directly from manufacturers in order to bypass wholesalers.<sup>164</sup>

Supermarkets and hypermarkets will prefer to import their products directly as a means of improving their margins, since import agents or distributors acting as middlemen can add up to 30 percent cost to the product.<sup>165</sup> Potential U.S. snack food exporters should also note that few South African importers specialize in just one product. Local importers tend to be generalists who source a wide range of food products from around the globe.<sup>166</sup>

U.S. snack exporters should be aware that their products' marketability might be impacted by a number of issues. Examples of issues that may hinder imports are concerns with biotech product content, tariffs, tariff-rate quotas, existence of preferential trade agreements, taxes or levies, anti-dumping, licensing, and shelf-life requirements among others.<sup>167</sup>

## Egypt

Most analysts familiar with Egypt will concur that it is a land of contrasts. It is an ancient country undergoing rapid urbanization and pronounced population growth. Egyptian society consequently is adapting its traditional way of life to the requirements of modernization in an increasingly globalized world.

To meet the consumer demands of a burgeoning population, the Egyptian market is increasing its purchases of both U.S. bulk commodities in addition to expanding imports of intermediate and high-value consumer agricultural products. Particularly interesting about this trend is that it is occurring in a country whose second largest industry is the \$3.5 billion a year food processing sector which has consistently recorded on average 20 percent growth over the past decade.<sup>168</sup>

*Euromonitor* reports that snack foods are particularly popular with both children and office workers.<sup>169</sup> Children, as the single largest consumer group, continue to be the main focus of attention for marketers. Nevertheless adults, especially middle-income employees, are increasingly being targeted as an alternative group of potential snack food consumers. As *Euromonitor* further elaborates, the normal workday in Egypt runs from 9 to 5 with no lunch break, thus making convenient, bite size food that does not have to be prepared especially attractive for eating while you work.<sup>170</sup>

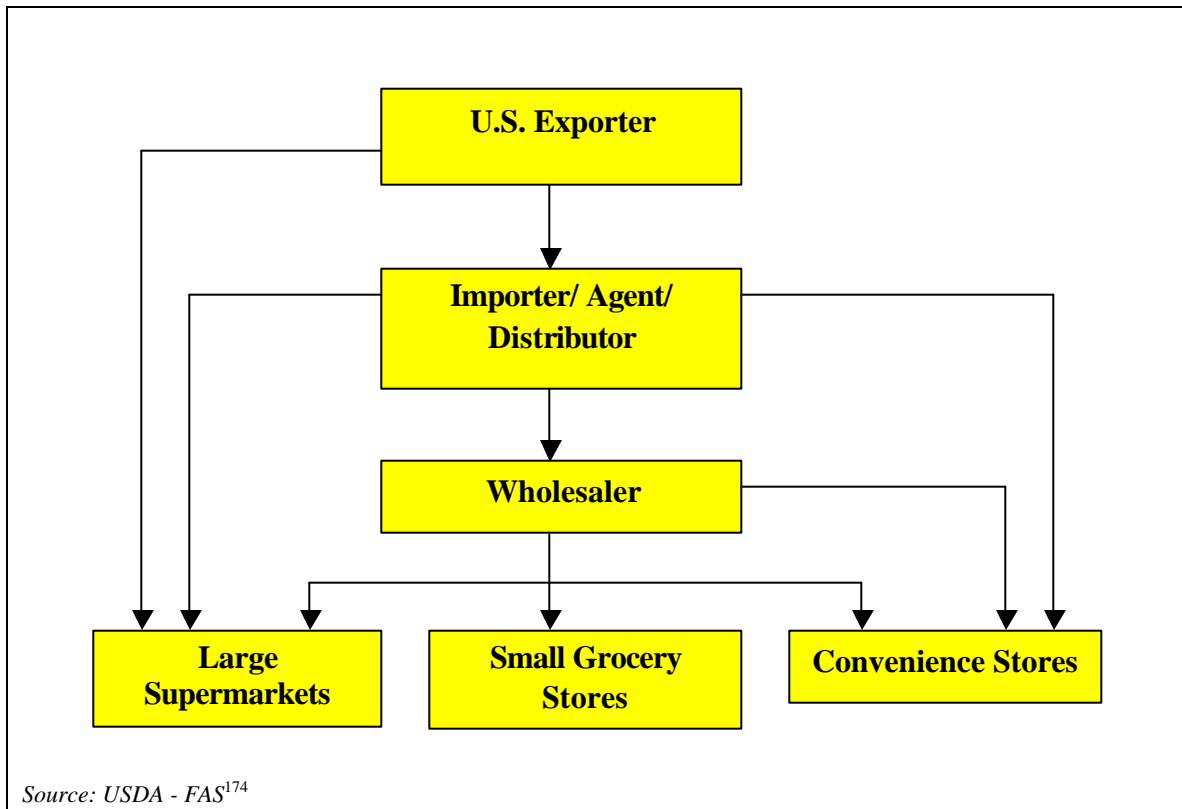
International supermarket chains have sensed Egypt's market potential and are making their presence felt in the country. As the *Egypt Retail Food Sector Report 2001* indicates, Egyptian consumers for their part have been quick to embrace the higher quality and variety of product and shopping convenience afforded by supermarket and hypermarket chains (i.e. *Carrefour*, *Metro*, *Shoprite*, *A-One Market*, and *Alpha Market*).<sup>171</sup>

With regard to Egyptian taste preferences, *Euromonitor* indicates that what sells best in this market are salty and bold flavored snacks.<sup>172</sup> For example, *Chispi*, Egypt's most popular chips brand, product line includes extra salty, chicken curry, kebab, lemon, spicy, and plain flavored snacks that are immensely well received by consumers.<sup>173</sup>

Nevertheless consumer demand for new processed products such as snacks may be hindered not only by a lack of consumer awareness and limited income, but also by Egyptian trade barriers. Though the Egyptian government has not yet imposed the requirement of mandatory pre-shipment inspections on imported food commodities, it nevertheless does have in place a number of trade barriers. For example, Egypt requires import permits, licensing requirements, quotas, and product standards that contribute to slowing the flow of trade.

## Exporter Marketing Channels

### Egypt



Egyptian demand for imported foods will continue to rise driven by the country's growing population of consumers. The country's youth bulge, especially the middle and upper income sectors that have traveled, studied, and worked abroad, demands a variety of international brands. Notwithstanding this demand, U.S. exporters should note that Egyptian importers normally trade in a wide variety of products but in small quantities, while wholesalers and retailers (excluding the large supermarket chains) will largely refrain from importing directly.<sup>175</sup>

The Egyptian processed food import market offers number of rewards for potential U.S. snack food exporters. But this market, beyond price sensitivities, is also accompanied by a series of caveats that should be mentioned.

Besides the Government of Egypt's stringent import regulations and labeling requirements (e.g. packaging must be clearly labeled in Arabic), what could detrimentally impact U.S. export competitiveness in Egypt vis-à-vis European manufacturers is the EU – Egypt Partnership Agreement. This agreement will substantially cut or eliminate tariffs on most European products, which may lead to a displacement of some U.S. processed food sector products.<sup>176</sup>



## Saudi Arabia

Saudi Arabia has undergone significant changes in recent years. For example, during the past decade Saudi Arabia has been wracked by the need to adjust to significant economic and social demands brought about by declining GDP per capita (fell from \$28,000 in 1981 in current dollars to less than \$7,500 today). The decline in GDP per capita has been compounded by population growth above 3 percent per year.<sup>177</sup>

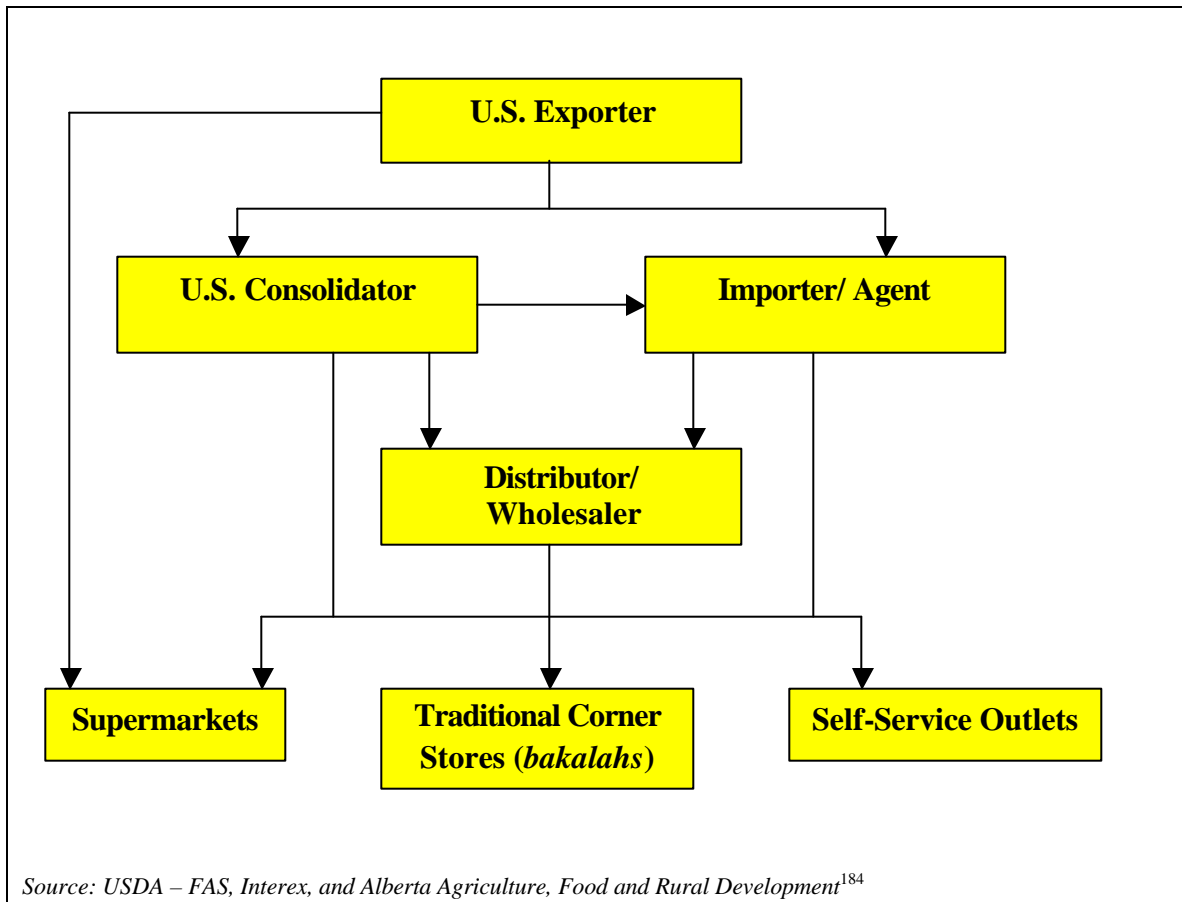
Even though the country has sought to diversify its economy to compensate for both reduced oil revenues as well as provide alternative employment opportunities, it nevertheless remains dependent primarily on petroleum exports. This economic dependency on a single commodity, in a country of 22.5 million people of which 50 percent are under 16 years of age, makes the Saudi market ripe for high-value processed foods such as snacks.<sup>178</sup> U.S. exporters should note that Saudis tend to favor sweeter snacks.<sup>179</sup> During the 1996 – 2002 period there have been major increases in the import of both potato chips and popcorn snack products, while U.S. origin corn chip demand has fallen.

Note that Saudi Arabia currently imports roughly \$7.2 billion worth of food annually as a consequence of its limited renewable agricultural resources. Exposure to international brands has been facilitated by the presence of Western-style supermarkets in major urban areas of the kingdom such as Riyadh, Jeddah, and Dammam, Al Khobar, and Dhahran. The *Saudi Arabia Exporter Guide Annual 2002 GAIN Report* indicates that the expansion of supermarket outlets has made it feasible for supermarket chains to import product directly from the United States.<sup>180</sup>

*Euromonitor* reports that despite the fact that snacking is relatively new to Saudi Arabia chips/ crisps have become extremely popular as either snacks or as complements to even main meals.<sup>181</sup> The takeoff of snacking is a consequence of the fact that children make up nearly half of the population and are snack products primary consumers.<sup>182</sup> *Euromonitor* highlights that high levels of advertising directed toward children will drive increased consumer demand for snacks.<sup>183</sup>

## Exporter Marketing Channels

### Saudi Arabia



Saudi Arabia's market offers U.S. snack food exporters a number of favorable factors for increased sales. For example, a growing population, various upscale supermarkets, acceptance of mass media advertisement, and the general recognition of the United States as being a reliable supplier of quality processed foods.<sup>185</sup>

U.S. exporters should nevertheless be aware that servicing this market does present a number of challenges. Besides increased competition from local producers and higher freight costs than from European and East Asian origins, there are stringent labeling requirements and food standards that must be followed. Packaging must be in Arabic or be affixed with an Arabic language translation of the label. In addition, for religious reasons the import of pork and foodstuff ingredients or additives that contain pork products, including pork fat, is strictly prohibited.<sup>186</sup>

## United Arab Emirates

The United Arab Emirates (U.A.E.), integrated by the states of Abu Zaby, 'Ajman, Al Fujayrah, Ash Shariqah, Dubayy (Dubai), Umm al Qaywayn, and Ra's al Khaymah, is a trade-strategic market for American products. Located between Oman, Saudi Arabia and the Persian Gulf, the U.A.E. serves as a major regional trade hub that re-exports roughly 60 to 70 percent of its agricultural imports to the other Gulf countries, Africa, India, and the former Soviet Union.<sup>187</sup>

U.S. snack foods find good local consumer acceptance as the result of a high number of resident foreign workers (nearly 73.9 percent of the 15-64 age group is non-national).<sup>188</sup> Western-style foods acceptance is facilitated not only by the presence of a large expatriate community, but also by the fact that a high percentage of the Emirati population travels routinely to the West for tourism and/ or education purposes.<sup>189</sup> This has engendered a noticeable shift in food consumption away from traditional to Western-style convenience foods.<sup>190</sup>

To meet increased local demand, and undertaken as a means of moving away from over reliance on petroleum revenues, the U.A.E. has actively invested since 1994 over \$1.4 billion in the local food-processing industry.<sup>191</sup> Though the U.A.E. now has some 150 food-processing plants in operation, that account for 40 percent of the Persian Gulf area's total number of such facilities, it still remains a net importer of consumer-ready products.<sup>192</sup> In addition, local snack food manufacturing remains heavily reliant on imported fresh potatoes from nearby countries, as well as high-quality frying oils, corn grits, and dehydrated snack food ingredients from the United States.<sup>193</sup>

Though sustained investment has expanded manufacturing, local snack products continue to be constrained by lower product quality and near total dependence on imported raw and intermediary processed materials. Domestic snacks, especially chips/ crisps, are only able to compete with the less expensive/ lower quality Asian snack imports.

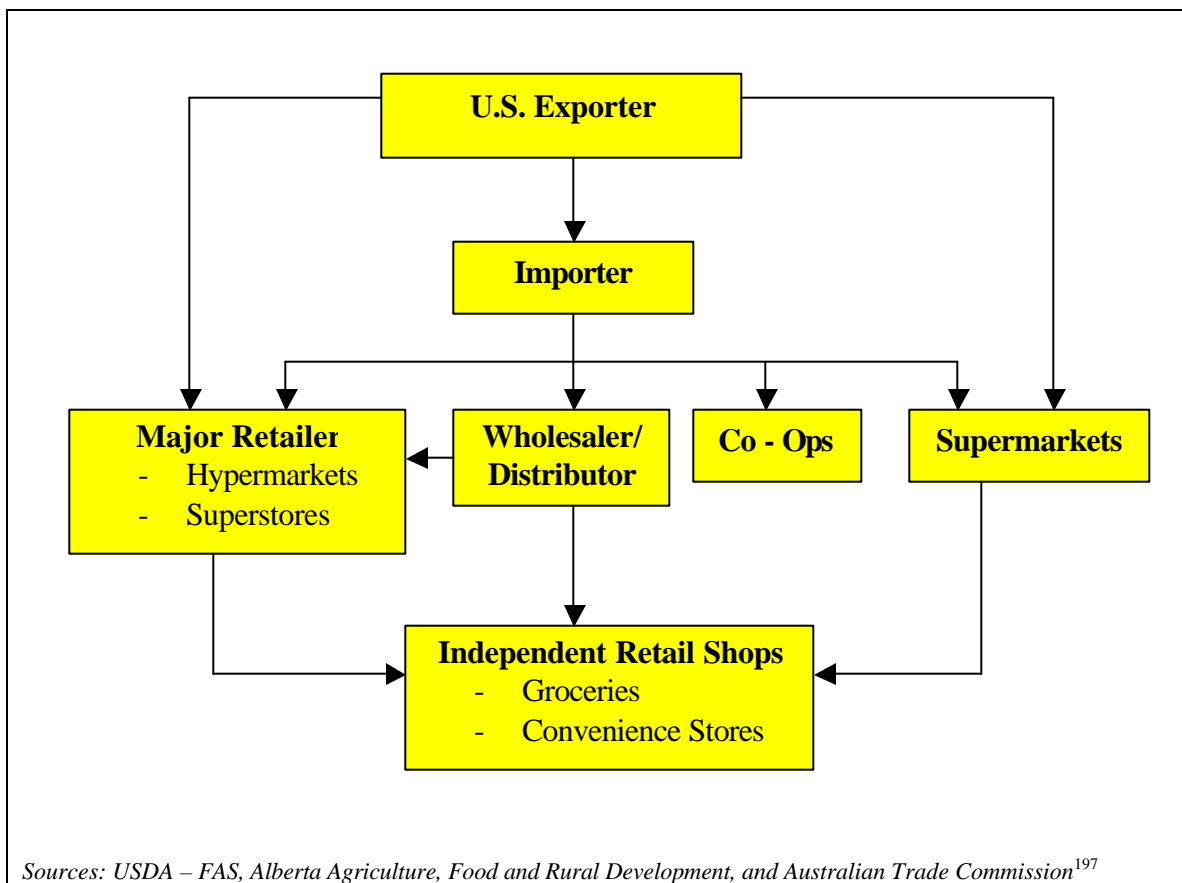
Factors such as those just mentioned combined with a familiarity with U.S. culture, and even a desire to emulate aspects of it, have greatly benefited U.S. origin products in the past. Stressing the "Made in USA" label, especially after the first Gulf War, has provided U.S. manufacturers with a competitive advantage. Note that this advantage has gradually eroded in a number of sectors in recent years by increased competition from Asian and European suppliers, as well as increased regional sensitivities with America's policies.

Best prospects for U.S. snack food exporters reside in targeting the Emirati middle- and upper-income groups. An effective way for developing opportunities in the Emirates, as well as other nearby markets given local traders' propensity to re-export large volumes of agricultural and processed food products, is to attend regional trade shows. Potential U.S. exporters should note that the most important regional food show is the biennial *Gulf Food Show*.<sup>194</sup>

If attending the *Gulf Food Show* is cost prohibitive, exhibiting at major U.S. food trade shows such as *FMI/ NASDA* and *NRA* are viable alternatives.<sup>195</sup> In any case U.S. snack exporters stand to profit from increased receptivity by notifying their potential Emirati customers (reliable importers) well in advance of their intent to participate in these shows and follow-up just prior to and after the event. The *United Arab Emirates Retail Food Sector 2002 GAIN Report* indicates that U.A.E. importers have stated that many of their U.S. origin import decisions are based on their visit to these shows.<sup>196</sup>

## Exporter Marketing Channels

### United Arab Emirates



U.S. snack food manufacturers should find in the U.A.E. a worthwhile destination for a number of their products. Though locally produced foods are generally limited to salty snack foods, soft drinks, and processed dairy products, even within these sectors there is significant import demand. U.S. suppliers will benefit from the country's advanced direct food wholesaling and distribution channels that aid snack food distribution.<sup>198</sup>

U.S. exporters should be prepared to be flexible not only with regard to labeling requirements (i.e. Arabic and English requirements vary), but also should be prepared to work hard at establishing strong relationships with potential clients. New-to-market U.S. suppliers should be prepared to work with an established reliable importer that is able to service major retail outlets in this highly affluent and competitive marketplace.<sup>199</sup>

The principle means for distributing snack products takes the following form:

- 1) Snacks can be imported directly by importers, producers, wholesalers, or retailers.
- 2) Convenience stores will usually obtain their snack products through van operators that purchase product directly from producers or importers.
- 3) Local companies may purchase product in bulk from different manufacturers, then mix and pack products under their own brand names.<sup>200</sup>

## The Latin American Snack Food Market

A number of market followers argue that against all odds, Latin America's snack foods market has shown resilience in the face of deep devaluations and region-wide recession. With the exceptions of Argentina, that has experienced some of the worst shocks almost on par with depression-era levels, and Venezuela's ongoing political turmoil, other markets continued to hold their own (Table 10). Market resilience is explained to an extent by the snack foods' ability to weave itself almost seamlessly into the lifestyles of urban populations.

**Table 10 - Reported sales of savory snacks by major Latin American markets**  
(U.S. \$ millions, ranked)

Country	1998	1999	2000	2001	2002*
Mexico	2,073.4	2,396.2	2,639.4	3,002.4	3,397.0
Brazil	562.6	675.8	629.7	641.1	659.6
Colombia	295.6	371.2	433.2	496.4	557.8
Venezuela	79.5	94.4	113.2	134.5	168.3
Chile	111.7	108.8	115.2	116.1	118.1
Argentina	80.5	85.0	82.6	85.2	58.2
<b>TOTAL:</b>	<b>3,203.3</b>	<b>3,731.4</b>	<b>4,013.3</b>	<b>4,475.7</b>	<b>4,959.0</b>

\* Provisional data for January to November 2002 period.

Source: Euromonitor.<sup>201</sup>

Notwithstanding economic retrenchment, Argentina and Brazil represent significant emerging markets for U.S. snack food products given market size and concentration of consumers. Most analysts familiar with the region largely concur that the drop in real wages, in some cases as high as 50 percent, has served as a catalyst for the rapid rise of two and even three-income families as more homemakers, and now even older teens, increasingly enter the workforce to compensate for head of household income declines. Concurrently as more Latin Americans increasingly spend longer hours at the workplace, they are forgoing and replacing higher cost restaurant meals, or commuting home for lunch, with less expensive snack foods.

A number of forecasts indicate that import demand for snack products should edge upwards as the region's economies gradually recover. Recovery will be assisted by a combination of growing demand in China, India, and Southeast Asia for Latin American commodities, a weaker dollar, better prospects for domestic political stability, and improved market liquidity. Nevertheless regional recovery may be tempered by slowed growth rates in the United States, a consequence of geopolitical developments, and continued uncertainties associated with financial weakness of key industrialized markets.

U.S. exporters seeking to service this dynamic market, one until recently characterized by some of the world's highest growth rates and supply gaps, must not commit the error of treating the region as a single homogeneous market. Country specific tastes, demographics, and macroeconomic and political risk factors vary greatly and may contribute to distort actual business costs.

Additionally, U.S. exporters need to understand that large retail chains (i.e. supermarkets, discount stores, and convenience chains) dominate the Latin American marketplace. *Infoamericas* observes that with 3 to 5 retail groups controlling most of the markets, these are able to dictate payment terms of 90 to 120 days to their suppliers in addition to demanding deep discounts for early payment.<sup>202</sup>

Notwithstanding these caveats, Latin American countries such as Mexico continue to figure predominantly as a key destination for U.S. origin snacks. The Mexican import market for snacks continues to be dominated by U.S. origin snack foods. Its continued growth and high volume level have been large enough to compensate for recent short-term decline in demand in both the Argentine and Brazilian snack markets (Table 11).

## Demographics

<b>Table 11 – Latin American demographics and imports of U.S. origin snack foods.</b>						
	<b>Brazil</b>	<b>Argentina</b>	<b>Chile</b>	<b>Venezuela</b>	<b>Mexico</b>	<b>Panama</b>
<b>Population (Millions)</b>	173.8	36.5	15.6	25.1	101.7	2.9
<b>Urban</b>	81%	90%	86%	87%	74%	62%
<b>GNI PPP p/capita 2000 (U.S. \$)</b>	7,300	12,050	9,100	5,740	8,790	5,680
<b>U.S. imports Jan. – Dec. Comparisons (1000 Dollars)</b>						
<b>1996</b>	12,546	2,768	317	1,768	17,975	2,077
<b>2002</b>	395	169	1,076	3,778	45,536	3,531
<b>% change</b>	-97%	-94%	239%	114%	153%	70%

Values are for imports of meat snacks, popcorn, potato and corn chips, cookies and sweet biscuits, gingerbread, and snack nuts.

Sources: USDA – FAS – BICO Export Commodity Aggregations based on department of Commerce, U.S. Census Bureau, Foreign Trade Statistics.<sup>203</sup>

Table 11 illustrates the consequences of economic implosion on formerly good import markets for U.S. origin snacks. Aggregate figures of unrelated snack products in this case mask how these otherwise good export destinations quickly move from good levels of growth to decline from 1998/99 onwards.

Particularly dramatic has been Brazil's retrenchment from just over \$13 million worth of potato chips/ crisps in 1998 to approximately \$105 thousand worth of imports in 2002 representing a drop of over 99 percent. Argentina has similarly experienced a drop from over \$5.7 million worth of potato chips/ crisps imports to \$104 thousand (98 percent decrease).

### **Entry Strategy**

The Latin American market, much like other regional markets around the globe, is highly segmented. U.S. exporters of snack foods are encouraged to research the target market(s) thoroughly to determine both whether their snack products will find acceptance, and if so, will these products be price competitive.

In any case, this region should not be treated as a homogeneous block. There are numerous cultural differences, taste preferences, and even different languages spoken. For example, even though Brazil forms part of Latin America and Brazilians largely comprehend Spanish, they speak Portuguese and expect that business in their country be conducted primarily in this language. For that matter even among the Spanish speaking countries there are numerous subtle, but nevertheless distinct linguistic differences.

Some factors that potential U.S. exporters of snack products should consider when planning to sell to Latin America are:

- 1) Be able to deal effectively in either Spanish or Portuguese
- 2) Adapt packaging and labeling to local and regional needs. This requirement is increasingly becoming more relevant with *MERCOSUR* progressively emulating many of the practices of the *European Union*.



## Argentina

Imported U.S. processed food products have traditionally been well received given Argentines' familiarity with American culture. Argentines readily identify U.S. origin products as being of high quality and reliability. Traditionally Argentines have favored potato and corn chips, as well as popcorn and sweet biscuits.

All the same most analysts concur that the country's recent economic upheavals, a weak labor market, and the accompanying political instability, have contributed at least in the short-term in making U.S. food products either specialty or novelty food imports. This disappointing outlook can be concluded from the collapse of demand for U.S. origin snacks, which has plummeted by 78.4 percent in year 2002 in comparison to year 2001.<sup>204</sup>

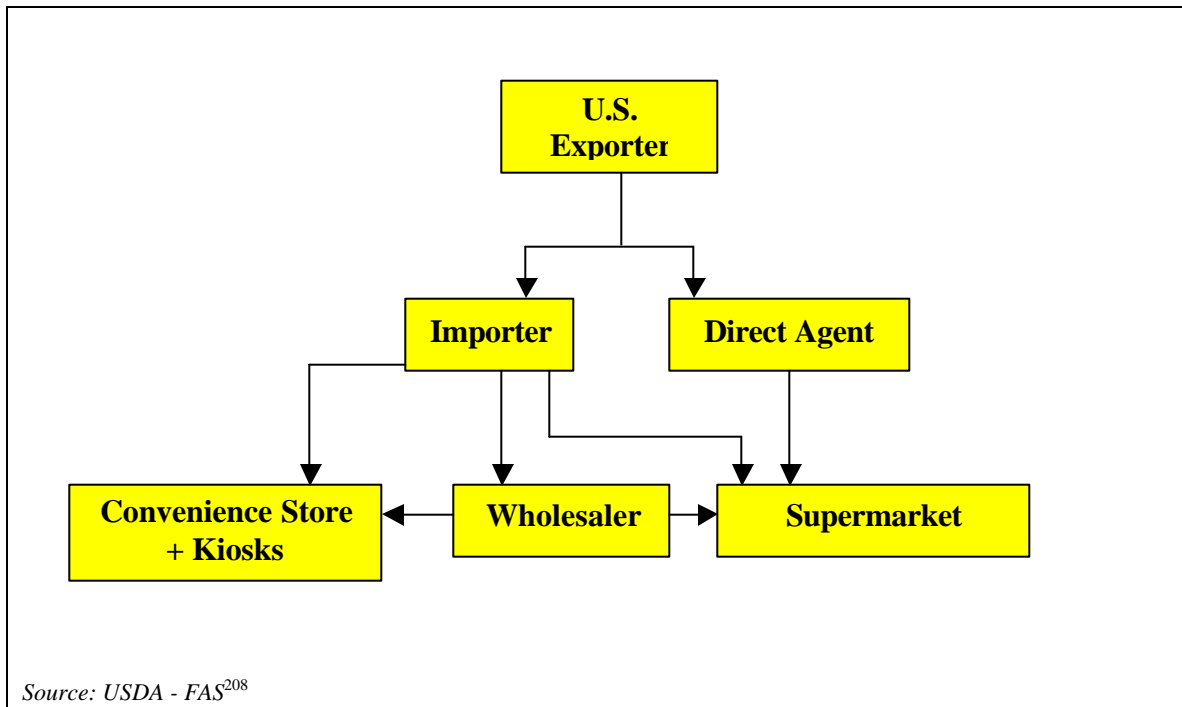
Argentine demand for snack foods was one of the highest in the Americas until recently. *Researchandmarkets* reports that up until 2001 not only did potato chips account for 63.1 percent of all snack food revenues, but also that potato chip consumption was showing higher growth rates than other savory snacks.<sup>205</sup> What is also commercially noteworthy about Argentina is that the country's inhabitants have been for some time South America's biggest purchasers of popcorn in per capita terms.<sup>206</sup>

Caveats associated with this marketplace, apart from weak demand resulting from economic crisis, reside with higher distribution costs associated with reaching the country's interior cities, lack of brand awareness, limited market awareness by U.S. exporters, and *MERCOSUR* (Common Market of the South) preferential tariffs. U.S. exporters contemplating exporting to Argentina should note that *MERCOSUR*, much like *NAFTA*, has encouraged significant intra-regional trade and made Brazilian and Chilean competition especially pronounced.

Small to medium size U.S. exporters should also be aware that *PepsiCo – Frito-Lay*, as Argentina's main market player, has a number of manufacturing plants in country. Note that thanks to this presence, according to *Argentina Retail Food Sector GAIN Report*, *Pepsi-Co – Frito-Lay* has obtained control over approximately 70 percent of the domestic market.<sup>207</sup>

## Exporter Marketing Channels

### Argentina



The *Argentina Retail Food Sector Gain Report* indicates that U.S. exporters considering entering the Argentine market should note that though food products in general can be imported directly by supermarkets, and thus avoid the need to recur to local agents, past experiences indicate that most of those products have lacked continuity in the market.<sup>209</sup> Local agents will work closely with the large retail chains and routinely check that the products they represent are effectively marketed.<sup>210</sup>

Another issue that U.S. exporters need to consider is the costs associated with effectively marketing their products in Argentina. Until the Argentine economy's implosion in 2001 and subsequent un-pegging of the peso to the dollar, such marketing costs as slotting fees, publicity fees, and stocks for every new store opening, were high. Exporters are advised to check to see if these costs have stabilized at lower levels. Exporters also should note that Argentina remains in default, which subsequently complicates international financial transactions.

### Brazil

Brazil possesses South America's largest snack market. In terms of volume it ranks only second to that of Mexico's within the whole of Latin America (Table 10).

As markets go, Brazil's urbanized consumer tendencies mimic those in the more developed economies. Consequently the country's office workers, especially the younger cohorts, like their peers elsewhere are increasingly turning to snack food products to make up for skipped meals.

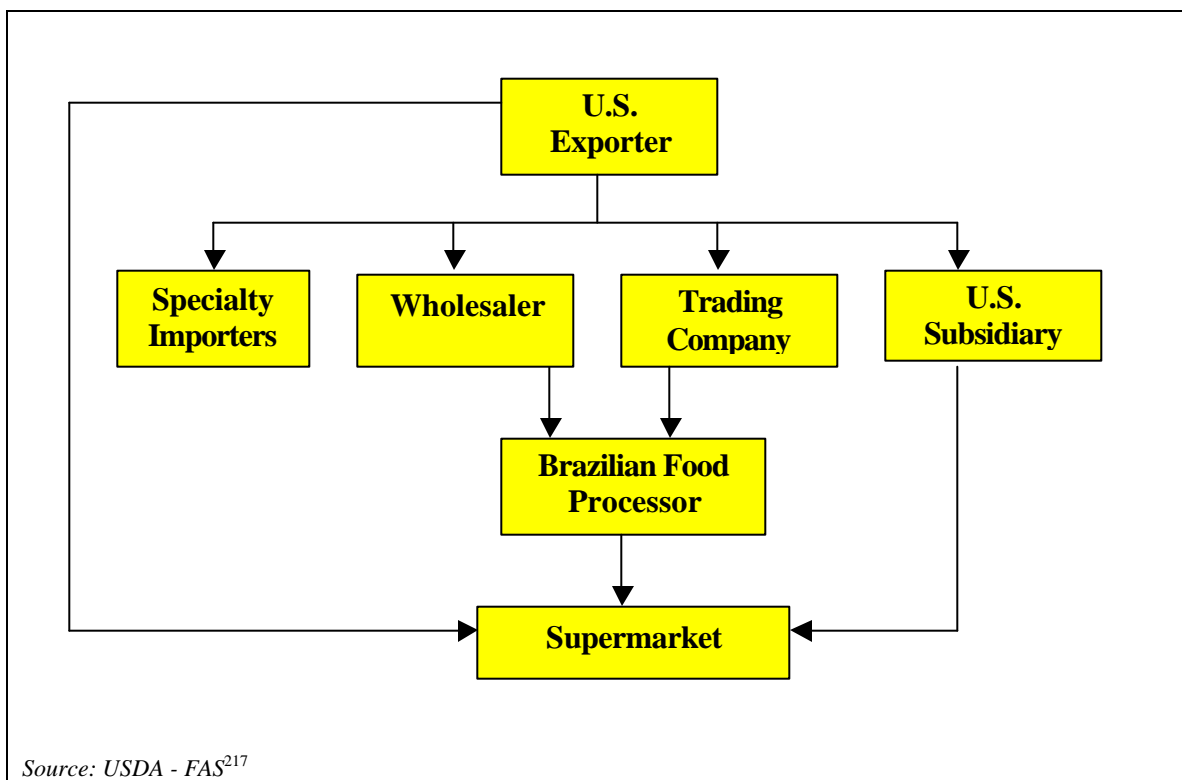
*Researchandmarkets* sustains that within the Brazilian marketplace savory snacks dominate over 50 percent of the market.<sup>211</sup> Within the savory snacks, extruded snacks form the most lucrative sector of this category holding roughly two-thirds of the market share.<sup>212</sup>

Both *Researchandmarkets* and *Promar International* concur that salty (*salgadinhos*) and sweet snacks form a traditional component of the average Brazilian diet.<sup>213</sup> Though per capita consumption is among the highest in Latin America, consumption is skewed largely in favor of the upper income segments of society.<sup>214</sup>

Given the country's size, growth potential, and current consumer trends, Brazil offers U.S. exporters some of Latin America's best growth opportunities over the next decade.<sup>215</sup> Furthermore *Promar International* forecasts that the Brazilian salty snacks market should see sales volume doubling during the year 2000 to 2010 period.<sup>216</sup>

## Exporter Marketing Channels

### Brazil



U.S. exporters should note that the Brazilian government by means of decrees and procedures directly impacts export/ import processes. Different branches of the federal government actively regulate various aspects of trade via fiscal, administrative, and foreign exchange controls.<sup>218</sup>

The *Brazil Exporter Guide Annual 2002 GAIN Report* indicates that Brazilian importers view U.S. exporters as being more reliable than European counterparts, yet they are nevertheless often put off by American suppliers being overly contract oriented.<sup>219</sup> In this sense European businesses are reportedly more flexible with regard to local retailers' demands and are more customer service focused.

## **Mexico**

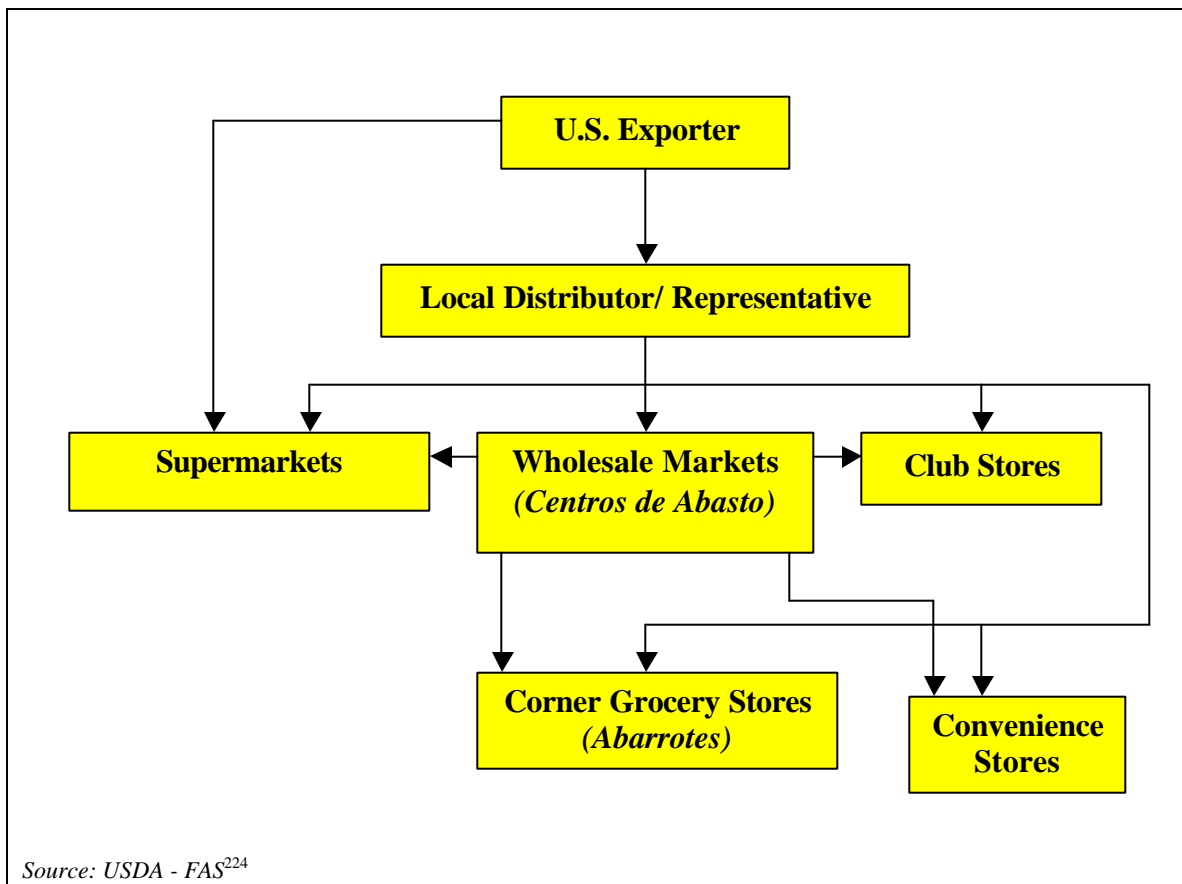
U.S. snacks dominate the imported snack foods market in Mexico. Competition for American snacks arises almost exclusively from local Mexican snack food manufacturers who are this market's principal suppliers. *Research and Markets* reports that the Mexican snack market for savory snacks, potato chips, popcorn, and snack nuts is one of the largest in the Americas and only trails those of the United States and Canada in terms of value.<sup>220</sup>

Mexican manufacturers have benefited from the experience of having to compete head-to-head against high quality U.S. snack imports and the local presence of U.S. based food-manufacturing companies. Yet as a corollary to improved product quality and packaging sophistication has been the enhancement of Mexican snack manufacturers' export sales capabilities. Like a number of other Latin American manufacturing firms, these "*Multilatinas*" according to *Promar International* have successfully transitioned outside of their borders by establishing joint ventures and or equity deals/ acquisitions with firms in neighboring countries.<sup>221</sup> Additionally in a number of the Latin markets, particularly those in Central America, Mexican exporters have been able to capitalize on proximity and cultural similarities (especially in regard to Southern Mexican style snacks).

Small to medium size U.S. exporters should note that Mexico is one of the United States' principal export markets. Though the Mexican economy continues to evidence a number of structural weaknesses, as well as skewed income distribution, it is nevertheless one of the world's most important emerging markets. *Research and Markets* indicates that recovery from the economic depression of 1994-95 has fueled in recent years growth with high levels of GDP.<sup>222</sup> The Mexican food market will benefit from this growth that is estimated to generate a 50 percent expansion during the next decade.<sup>223</sup>

## Exporter Marketing Channels

### Mexico



U.S. exporters wishing to penetrate the Mexican snack food market should procure a reliable local distributor/ representative who will assist them establishing business relationships with domestic buyers. According to the recommendations of the *Mexico Market for Snack Foods 2001 GAIN Report*, the majority of small to medium size U.S. snack exporters should seek to take advantage of existing distribution networks provided through a distribution company or a Mexican manufacturer.<sup>225</sup>

Though traditionally snack foods reach the Mexican consumer via small neighborhood corner grocery stores, the trend is for convenience stores to replace these smaller stores. Yet, regardless of the size of the retail establishment, the country's wholesale markets are the country's principle distribution source of consumer-ready products. Outside of the country's wholesale markets only just a few large retail organizations have so far been able to establish their own distribution chains and import directly.<sup>226</sup>

## **Andean Countries (Bolivia, Chile, Colombia, Ecuador, Peru, Venezuela)**

Though these markets on an individual basis are smaller in terms of size and consumption levels than those of Brazil and Mexico, they nevertheless still represent interesting potential export markets when considered as a group. For the purposes of the present analysis, the Andean market is composed of the countries of Bolivia, Chile, Peru, Ecuador, Colombia, and Venezuela.

*Promar International* estimates that Andean markets should expand by 100 percent during the 2000-2010 period, with the sale of salty snacks growing from \$1 billion to \$2 billion.<sup>227</sup> Noteworthy within this region has been the Colombian market's turnaround after years of decline. U.S. Department of Commerce statistics show Colombian demand for U.S. origin snacks in year 2002 rising by 49.5 percent to \$6.7 million in comparison to the year 2001 level of \$4.5 million.<sup>228</sup>

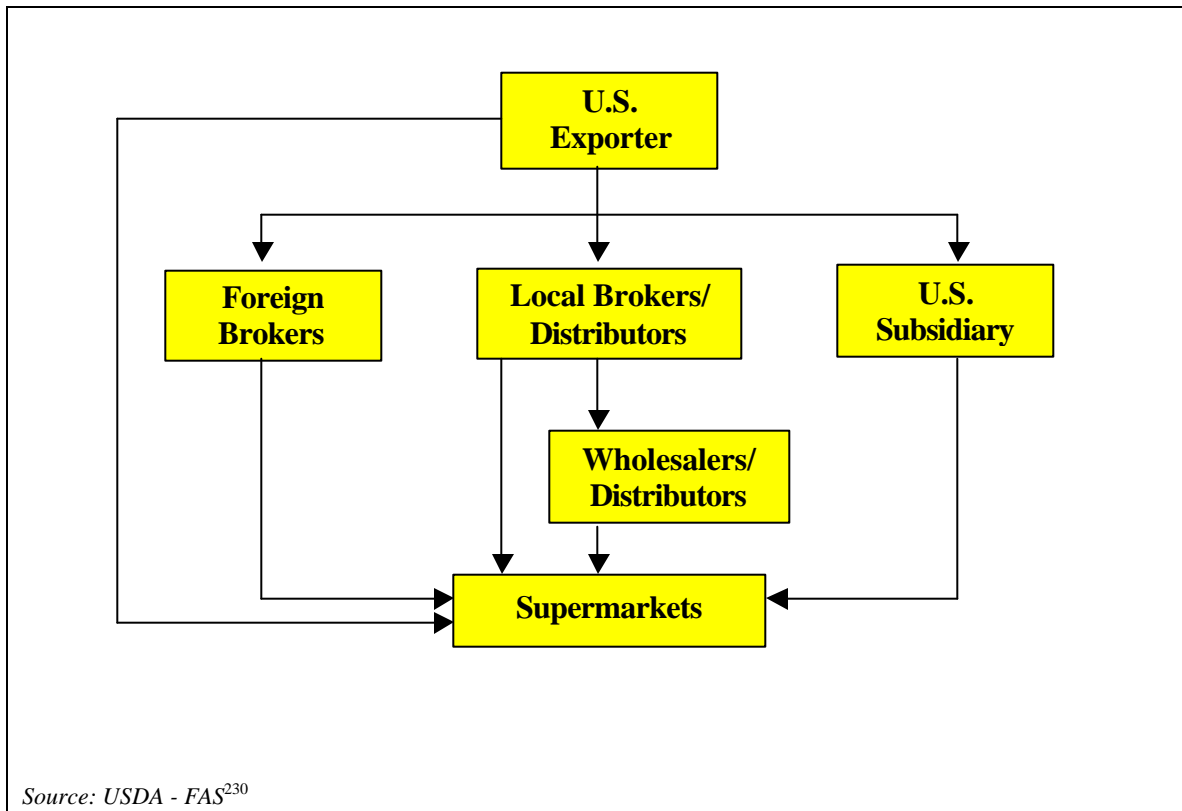
Equally interesting has been the resilience of Venezuelan import demand for U.S. origin snacks. Notwithstanding this country's ongoing political turmoil that has led to capital flight and an economy that has been collapsing by 10 percent per year even in light of high oil prices, demand for U.S. snacks remain strong.

Caveats associated with the Andean country markets, with the possible exception of Chile, pertain largely to a combination of political and financial insecurity, poor infrastructure outside of the major cities, and low income and small size limit most food consumption to basic products. Intra-regional trade is also gaining momentum as is made apparent by the fact that Ecuador relies heavily not only on traditional trading partners like Colombia and Venezuela for significant quantities of processed food imports, but also is increasingly becoming more dependent on Chile since the signing of their bilateral trade agreement in 1995.<sup>229</sup>

Note that the purchasing capability of consumers in all of these markets is impacted directly by international price fluctuations of their primary exports. Both Ecuador and Venezuela are heavily dependent on petroleum sales and petroleum does also play a significant role in Colombian economic prosperity. A similar situation occurs with Peru and Chile's mining, agricultural, and seafood exports.

## Exporter Marketing Channels

### Andean Countries



Note that the above market structure is a generalization of the typical situation prevailing in the Andean countries based on the Colombian country model.<sup>231</sup> This sort of structure may vary from country to country, but nevertheless is representative in overall terms of what U.S. exporters may encounter in the region.

All these countries have experimented with a number of import control mechanisms such as currency controls and pre-shipment inspection programs in addition to specific labeling requirements pertaining to shelf life and language. Potential U.S. snack food exporters need to be aware that competition from regional manufacturers will exploit both transportation costs advantages and preferential import tariff structures.

## The Oceania Snack Food Market

For the purposes of this report the Oceania marketplace is composed of the countries of Australia, New Zealand, and the islands of the Central and South Pacific (excluding the Hawaiian Islands). Estimated population for the seventeen countries that make up the region in year 2002 is approximately 37 million people, making the regional population slightly larger than that of Argentina (36.5 million), but much more dispersed.<sup>232</sup>

### Demographics

Demographically these markets, with the notable exception of the Australia, are diminutive in comparison to Asia (see table 12). Small population size, low-income levels outside of the more developed states of Australia and New Zealand and the French territories of New Caledonia and French Polynesia, as well as vast distances are all factors that must be accounted for when considering penetrating a number of these island markets.

<b>Table 12 – Oceania demographics and the importation of U.S. origin snack foods.</b>							
	<b>Australia</b>	<b>New Zealand</b>	<b>Papua – New Guinea</b>	<b>Fiji</b>	<b>New Caledonia</b>	<b>French Polynesia</b>	<b>Oceania Other</b>
<b>Population (Millions)</b>	19.7	3.9	5.0	0.9	0.2	0.2	2.1
<b>Urban</b>	85%	77%	15%	46%	71%	53%	69%
<b>GNI PPP p/capita 2000 (U.S. \$)</b>	24,970	18,530	2,180	4,480	21,820	23,340	18,770
<b>U.S. imports Jan. – Dec. Comparisons (1000 Dollars)</b>							
<b>1996</b>	3,605	754	0	0	509	865	286
<b>2002</b>	1,206	849	0	59	106	1,223	587
<b>% change</b>	-67%	13%	0%	%	-79%	41%	105%

Values are for imports of meat snacks, popcorn, potato and corn chips, cookies and sweet biscuits, gingerbread, and snack nuts.

Oceania and Pacific Islands considered: Australia, New Zealand, Papua – New Guinea, Fiji, Tonga, Palau, New Caledonia, French Polynesia, Cook Islands, other Pacific Islands, Pitcairn, and British Pacific Islands.

Source: USDA – FAS – BICO Export Commodity Aggregations based on department of Commerce, U.S. Census Bureau, Foreign Trade Statistics.<sup>233</sup>



U.S. exporters of snack products should note that both Australia and New Zealand are efficient and sophisticated agricultural exporters. These countries possess competitive export advantages in the region based on a combination of proximity and enduring cultural and political ties with a number of the island nations of Pacific.

With regard to the statistics in table 12, the values given are for the larger and more affluent societies of the region. The GNI PPP per capita values of the other members of Oceania usually fall within the \$1,710 (Solomon Islands) to \$5,050 (Samoa) range.<sup>234</sup> Most of these islands suffer from typical Pacific island problems of geographic isolation, few resources, and small populations.

### **Entry Strategy**

As highlighted in the preceding paragraphs, any entry strategy for Oceania should take into consideration not only the demographics and the disparities of wealth existing between the states that make up the region, but also should address issues pertaining to distance to market.

Probably one of the more effective ways for reaching the smaller outlying markets is to partner export efforts with those of Australian and New Zealand consolidators that have established regional purchasing networks. These will be familiar with the local taste preferences, market particulars, and likely will be able to obtain preferential ocean cargo rates.

U.S. exporters wishing to enter the larger more established snack markets of Australia and New Zealand should be prepared to face strong competition from domestic manufacturers. Many of these will likely also have established or be in the process of establishing a market presence in the surrounding Pacific Islands markets.

As has been stressed in other sections of the present report, key selling points for U.S. snack products are:

- 1) Product identification with quality and product safety;
- 2) Product freshness;
- 3) Packaging that is easy-to-handle, brightly colored and attractive especially among younger consumers.

## Australia

Australia is a prosperous, politically and economically stable, and industrialized state. Added to its economic prosperity is the additional benefit that over 85 percent of its population is urbanized and resides within the large urban areas of Sydney, Melbourne, Adelaide, Brisbane, and Perth – a fact that should not be overlooked since Australia is the size of the continental United States.

As the *Australia Exporter Guide – Annual 2002 GAIN Report* indicates, major advantages for U.S. exporters in past years have been a lack of language barriers to overcome and wide acceptance of American culture and products.<sup>235</sup> U.S. exporters continue to benefit from this situation and currently supply roughly 10 to 12 percent of Australia's consumer oriented agricultural imports even in light of the fact that the country is a major agricultural commodities exporter.<sup>236</sup>

U.S. snack food exporters wishing to penetrate the Australian market should be aware that commercial opportunities for large-scale exports of packaged snacks are somewhat limited. The *Australia Product Brief – Snack Food 2003 GAIN Report* cites that the ingredient market for snack foods may offer greater opportunities for U.S. exporters than is the case of the retail market, which is largely dominated by local snack food brands owned by U.S. multi-nationals.<sup>237</sup>

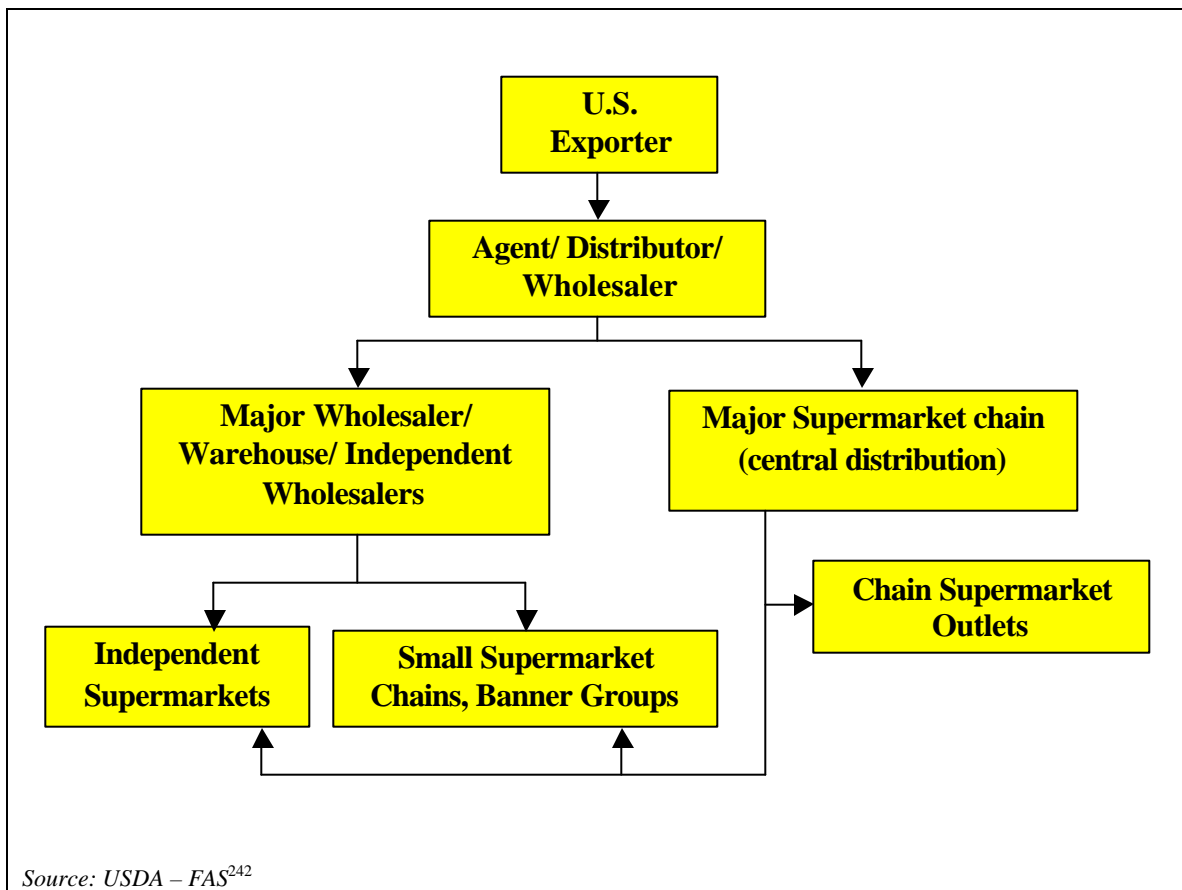
Though food processors have showed a desire to source domestically, there are reported indications that opportunities do exist for the purchase of seasonings, flavors, and cooking oils on the world market.<sup>238</sup> Note that purchases of both ingredient and processed foods are heavily dependent on any appreciation of the U.S. dollar.

Consumer trends within the Australian snack market are similar to those in other developed states. Consumers are increasingly finding themselves on the run, having to forgo three full meals in favor of eating smaller snacks during the course of the day. As in other countries, this tendency is also leading to a greater interest being placed on eating healthy and consequently is driving demand within Australia's growing "nutritious snack" market.

*Euromonitor* reports that a growing interest with eating healthier is driving product innovation in the Australian market.<sup>239</sup> Manufacturers have responded to this new demand by launching a number of products that offer lower fat content.<sup>240</sup> Nevertheless the Australian market has not yet indicated a desire for other healthier snacks such as those containing low-salt concentrations.<sup>241</sup>

## Exporter Marketing Channels

### Australia



Even in light of cultural similarities, U.S. manufacturers of snack food products considering exporting to the Australian market for the first time should visit the country in order to assess the commercial viability of their product. To facilitate market penetration U.S. exporters are advised to contract the services of local representatives.

As is the case prevailing in most countries, local representation will provide firsthand market knowledge, up-to-date information, and valuable guidance on common business practices. Local representation will also assist the U.S. exporter in navigating through Australia's trade-related laws and food standards, in addition to providing indispensable access to existing sales contacts and potential buyers.

U.S. exporters should realize that opportunities for pre-packaged snack food products may be somewhat limited by Australia's own domestic snack manufacturing sector. Nevertheless for those opportunities that do exist, U.S. exporters will more often than not get product to market through wholesalers and distributors. This practice eliminates the need for supermarkets and convenience stores to directly import product. The current

practices of both *Woolworth* and *Coles*, two of Australia's largest supermarket chains, largely confirm this trend.<sup>243</sup>

## **New Zealand**

Much like Canada, New Zealand is a worthwhile export destination for new-to-export U.S. companies. New Zealanders tend usually to view U.S. products as being both of excellent quality and appealing in the sense that they are innovative.<sup>244</sup>

Though New Zealand is an agricultural exporter, it imported \$181million in U.S. commodities in year 2001. Two-thirds of these were consumer-oriented food products.<sup>245</sup>

U.S. exporters' products entering New Zealand's market will face intense price-based competition from both domestic and Australian products. In 2001, Australia controlled up to 52 percent of the market share for imported consumer foods.<sup>246</sup> This country's market share has grown due to the U.S. dollar's appreciation relative to New Zealand's currency, a situation that has resulted in making American origin products more expensive.

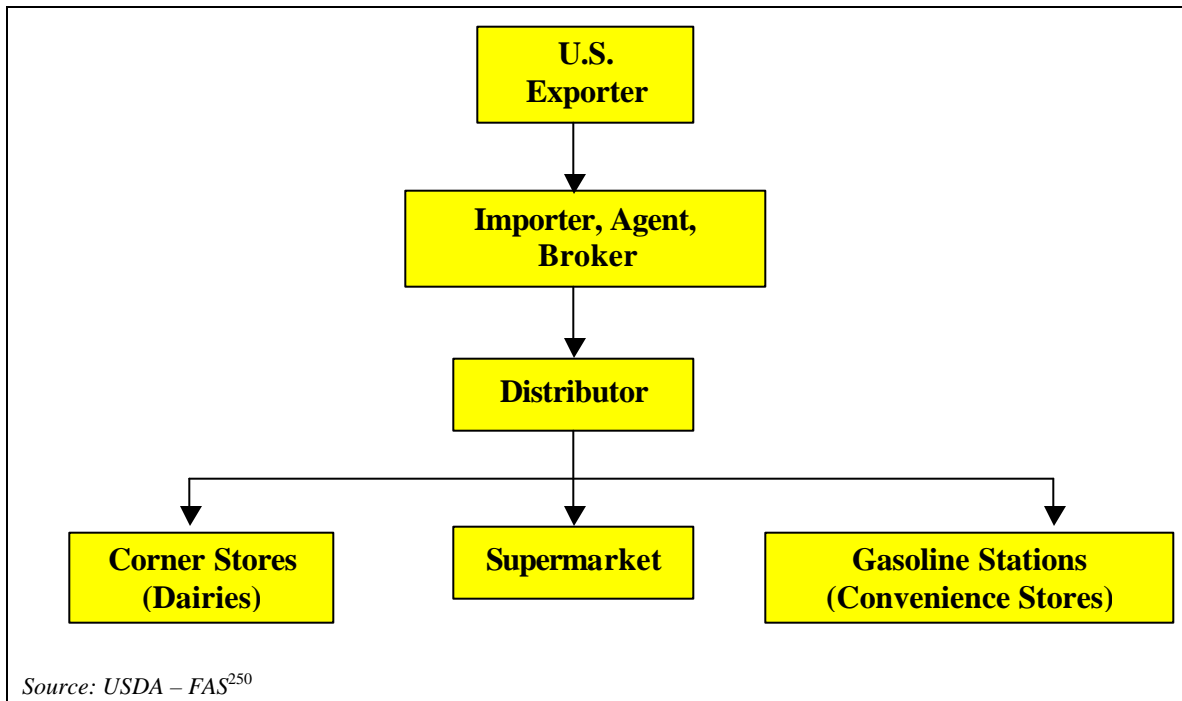
Australia's share of the New Zealand market has also expanded as a consequence of the *Closer Economic Relations* (CER) agreement existing between both countries. The agreement grants each other's products duty-free entry.

Demand for *muesli* bars and potato chips have in the past driven supermarket snack sales.<sup>247</sup> Nonetheless corn chips are increasingly being seen as a healthier, more substantial, and lower-fat snack alternative to potato chips. Prospects also exist for alternative snacks such as bagel chips, pretzels, and snack mixes.<sup>248</sup>

U.S. exporters should consider, similar to the case prevailing in Australia, targeting increased consumer demand for healthier snacks. *Euromonitor* reports that the steady value growth of 5.4 percent in savory snacks in 2002 is a consequence of increase demand for healthier low-fat snack alternatives.<sup>249</sup>

## Exporter Marketing Channels

### New Zealand



Market penetration in New Zealand's case is facilitated by the fact that the country's business practices largely mirror those commonly found in the United States. A familiar business environment, coupled with minimum barriers to trade and a general acceptance of U.S. origin products, will ease market entry.

New Zealand importers for the most part prefer to deal directly with American manufacturers rather than having to go through brokers.<sup>251</sup> Nevertheless local agents/distributors can provide useful help in promoting a number of consumer-ready food products in New Zealand's health conscious market. Note that fat-free and other health oriented consumer foods have good sales potential.<sup>252</sup>

The *New Zealand Market for Snack Foods 1999 GAIN Report* indicates that the snack food importer as a matter of course usually carries out the function of agent/ wholesaler/ distributor.<sup>253</sup> This practice allows importers to often hold the agency rights for a variety of grocery products, as well as develop key contacts with supermarket category managers.<sup>254</sup>

Note that labeling requirements are similar to U.S. standards with the exception that metric measurement is required. A marketing edge may be obtained by providing nutritional information on the product packaging even though the same is not required – most major brand lines do include this information.<sup>255</sup>

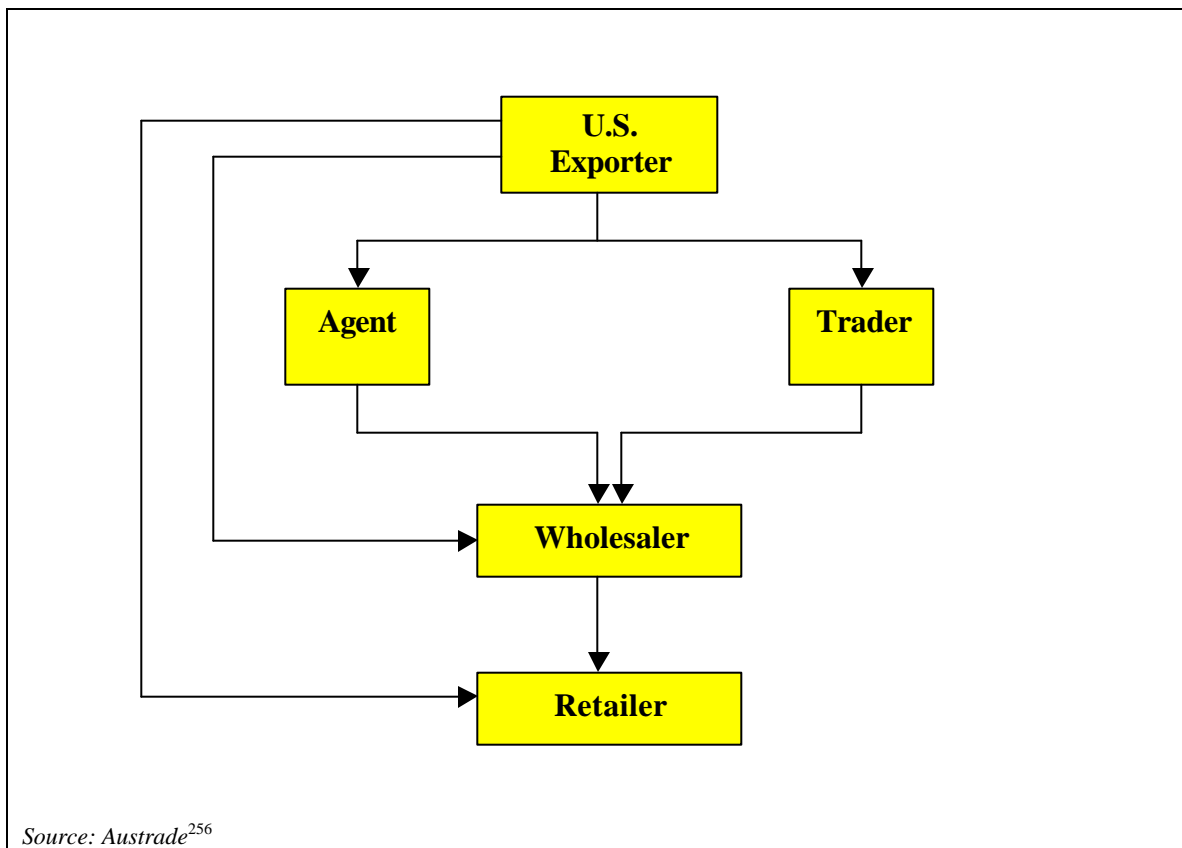
## Papua – New Guinea

U.S. exporters contemplating exporting to Papua – New Guinea should assess if their products are suited to that country's particular consumption proclivities. Note that approximately 15 percent of the national population is concentrated in urban centers such as Port Moresby, and it is this segment of society that is most exposed to international culture and food trends. The bulk of the country's population consumption patterns remain at the subsistence level and thus have little impact on import flows.

Best prospects for American exporters currently reside in catering to the packaged food needs of the urban population. Given the small size of the urban population, and ongoing economic difficulties, potential exporters should be prepared for primarily small shipping volumes.

### Exporter Marketing Channels

#### Papua – New Guinea



Potential U.S. exporters should expect to encounter, besides consumer price sensitivity, competition from both Australian and Asian exporters. These exporters are able to take advantage of already established relationships and closer proximity to market factors.

## **Fiji**

Within the processed foods sectors Australian imports continue to dominate (approximately 48 percent) the local Fijian marketplace.<sup>257</sup> Nevertheless, U.S. exports of convenience foods and confectionary products have made some inroads in the local market.<sup>258</sup>

U.S. snack exporters should note that local Fijian traders service a number of other nearby Pacific Islands. U.S. exporters may be able to reach these outlying markets by “piggybacking” their products with the undertakings of the Fijian inter-island traders.<sup>259</sup>

Principal marketing constraints with regard to Fiji, like those associated with a number of other Pacific Island nations, pertain to small market size, lengthy sea journeys, poor market infrastructure, limited supply of shipping due to small shipping volumes, the presence of already established regional exporters, and consumer price sensitivity. Nevertheless, the ongoing rapid Westernization of traditional culture is contributing to stimulate consumer demand for affordable foreign snack imports.

## **New Caledonia and French Polynesia**

Both New Caledonia and French Polynesia as overseas territories of France benefit from close commercial relations with metropolitan French exporters.

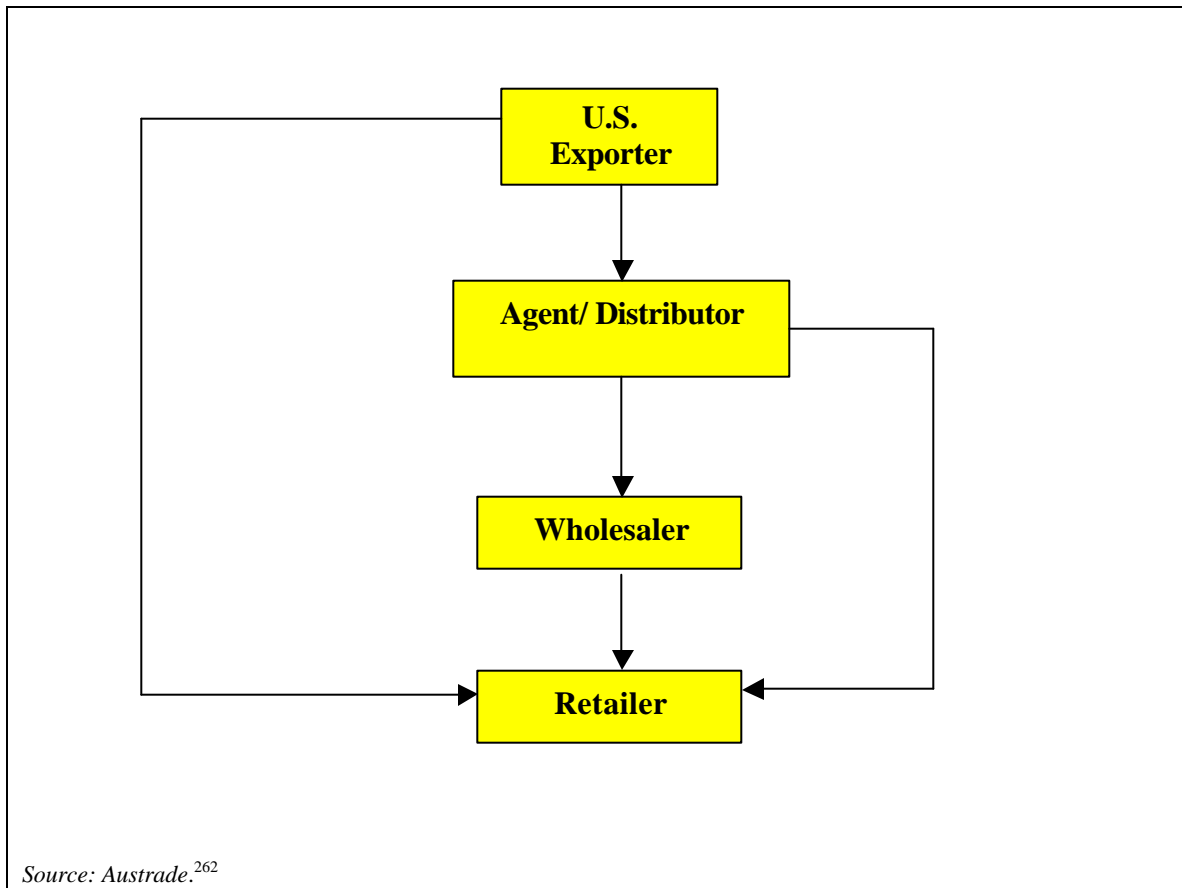
These territories share a similar population size and for the most part are largely urbanized (New Caledonia – 71 percent and French Polynesia 53 percent).<sup>260</sup> These factors should contribute to ease product insertion and distribution. Both of these territories also maintain close commercial ties with Australia, which supplies them with a number of their foodstuffs needs.

New Caledonia’s limited agricultural capabilities forces the territory to import roughly 20 percent of its food requirements.<sup>261</sup> Note that the local economy’s ability to finance imports is impacted by oscillations in the World market price for nickel, its principal export commodity.

U.S. exporters wishing to enter these markets will compete against both French and Australian imports of varying quality and price.

## Exporter Marketing Channels

### Fiji, New Caledonia, and French Polynesia



U.S. exporters wishing to enter the Fijian market should be prepared to establish exclusive agreements with agents. Regular contact and follow-up is required to ensure that any promotional activity being undertaken to develop the market is proceeding according to contractual agreements.

The New Caledonia and French Polynesian import distribution channels, given the small size of the local economy, share a number of similarities with their Fijian counterpart. Essentially there is a major emphasis placed on developing and maintaining close working relationships between importer and supplier. Note that importers will tend to remain loyal toward reliable suppliers, but will ask in exchange brand exclusivity.<sup>263</sup>

U.S. exporters should be aware that New Caledonia and French Polynesia require product labeling in French. Increasingly factory French labeling is being encouraged given that the practice of affixing stickers on packages is both time consuming and labor intensive for importers. U.S. exporters willing to provide this service will stand to benefit from improved product acceptance.



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## CONCLUSIONS AND OUTLOOK

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Future demand for U.S. origin snacks will come primarily from the developing and middle-income countries of the world. Among these countries we find that both population and income levels are gradually improving as urban populations expand in size. These urban consumers, experiencing as a whole a net increase in personal income levels, are prone to spend a far greater proportion of their added income on food than is the case with affluent consumers.

The trend, coupled with the data that indicates that there is increasingly a long-term shift towards the consumption of more consumer-ready food products, stand to benefit U.S. snack manufacturers and exporters of these products.

As indicated earlier in the Executive Summary, some of the best prospects for growth of U.S. snack exports in the coming years should be in the Western Hemisphere and non-Japan Asia once the current global economic slowdown draws to a close and prosperity returns. Other areas to keep a close watch on are Saudi Arabia, the United Arab Emirates, Egypt, and other developing countries that are increasingly becoming urbanized and whose youth bulge increasingly demand similar quality foods to those consumed by their counterparts in the more developed countries.

Even in light of the fact that global trade is far from free and open, demand for American snack products does exist. Nevertheless, U.S. exporters must be prepared to confront trade impediments such as market access barriers, foreign competitors' domestic and export subsidies, as well as the existence of exclusionary, preferential trade agreements between countries.

Notwithstanding such caveats, there are clearly good prospects for growth. An engine that should contribute to fuel U.S. snack exports is the growing worldwide demand for food in combination with rising per capita incomes and the number of two-income families.

Snack foods, like other consumer-oriented products, dominate the best prospects lists for American agricultural and food exports worldwide. U.S. competitiveness resides in marketing to the world new products characterized by innovative marketing inputs and value-added processing that few other competitors are able to effectively emulate.

In order to remain competitive in key import markets such as China, South Korea, and India, U.S. snack food must continue to be differentiated from both local and other growth-conscious foreign competitors.

In the European marketplace, U.S. snack exporters should not lose track of other good export possibilities by focusing exclusively on British snackers' demand for snack food

products. Increasingly worthwhile markets are also to be found in Eastern Europe. Nevertheless even in mature markets such as those of France, Italy, and Spain, *Foodnavigator* reports that a *Mintel* study has found that over the next four years these markets will grow by 37 percent, 33 percent, and 22 percent respectively as part of the continent's forecasted 12 percent rise in demand for savory snacks.<sup>264</sup>

In any case, and regardless of the region, the general consensus among analysts is that success can be achieved through a combination of product and packaging innovation combined with affordable pricing. Snack consumers, especially younger *snackers*, are increasingly spearheading demand for new product development. In this sense most markets, particularly those in the more affluent states, are driven either through young consumers' direct product purchases or indirectly by their "pester power" exerted on their parents.<sup>265</sup> *Mintel*, like a number of other researchers, concludes that savory snacks will be at the forefront of meeting consumer demand given this snack category's flexibility with regard to new shapes, tastes, flavors, textures, and packaging.<sup>266</sup>

## APPENDIX A: U.S. EXPORT CONCORDANCE/ SNACK FOOD PRODUCTS

Below are the *Harmonized Tariff System* (HTS) codes used to historically measure U.S. snack food exports. Where the number is currently no longer being utilized, a replacement code is noted. If that is the case, the item is designated “old” or “new” and the last year of use or the year of introduction is noted.

HTS Number	HTS Description
0210200000	Meat of bovine animals, salted, in brine, dried or smoked
1005904040	Popcorn, unpopped, except seed
1602310040	Turkey meat and meat offal (except liver) prepared or preserved, NESOI* ( <i>old -1996</i> )
1602310090	Other prepared or preserved turkey meat, other ( <i>new - 1997</i> )
1905100000	Crispbread
1905200000	Gingerbread and the like
1905300040	Sweet biscuits, waffles and wafers, NESOI ( <i>old - 2001</i> )
1905310000	Cookies (sweet biscuits) ( <i>new - 2002</i> )
1905320000	Waffles and Wafers ( <i>new - 2002</i> )
1905400000	Rusks, toasted bread and similar toasted products
1905909030	Corn chips and similar crisp savory snack foods
2005200020	Potato chips ( <i>new 1996</i> )
2005202000	Potato chips, prepared or preserved otherwise than by vinegar or acetic acid, not frozen ( <i>old – 1995</i> )
2008110040	Peanuts, blanched ( <i>old – 1994</i> )
2008110060	Peanuts (ground nuts) prepared or preserved NESOI ( <i>old - 1994</i> )
2008112000	Peanuts, blanched ( <i>new – 1995</i> )
2008119000	Peanuts (ground-nuts) prepared or preserved NESOI ( <i>new - 1995</i> )
2008191020	Brazil nuts, prepared or preserved NESOI
2008191040	Cashews, prepared or preserved NESOI
2008193010	Pignolia, prepared or preserved NESOI
2008193020	Pistachios, prepared or preserved NESOI
2008194000	Almonds, prepared or preserved NESOI
2008198500	Mixtures of nuts, peanuts, or other seeds, prepared or preserved NESOI
2008199010	Macadamia nuts, prepared or preserved NESOI
2008199500	Nuts or seeds, NESOI, otherwise prepared or preserved, whether or not containing sweetening or spirit, NESOI

(\*) - NESOI stands for “not elsewhere specified or identified.”

Source: US Department. of Commerce

## APPENDIX B: SUMMARY OF MARKET OPPORTUNITIES & CHALLENGES

Summary of Market Opportunities & Challenges: Europe					
Country	Market Size	Market characteristics	Local taste preferences	Best prospects for U.S. snacks	Marketing Challenges
<b>Britain</b>	<ul style="list-style-type: none"> <li>• 60.2 million</li> <li>• 90% urban</li> </ul>	Europe's largest consumer of snack food products.	Range from traditional salt and vinegar flavored chips to Indian inspired mini <i>naan</i> chips and mini <i>poppodums</i> .	Opportunities exist for firms that can meet local tastes and provide exotic flavors that the larger manufacturers may hesitate to launch.	Like the rest of Europe it is well served by regional/ international producers who exploit transportation and tariff advantages.
<b>Germany</b>	<ul style="list-style-type: none"> <li>• 82.4 million</li> <li>• 86% urban</li> </ul>	Second largest consumer of snacks.	Willing to try new flavors, but are still fond of paprika snacks.	”	”
<b>France</b>	<ul style="list-style-type: none"> <li>• 59.5 million</li> <li>• 74% urban</li> </ul>	Manufacturers unable to meet demand and product innovation expectations.	Like the British, the French are highly receptive to ethnic snacks.	Good potential exist for seeds/ nuts, extruded products (e.g. chips and crackers).	”
<b>Italy</b>	<ul style="list-style-type: none"> <li>• 58.1 million</li> <li>• 90% urban</li> </ul>	Consumption lags behind that of northern EU markets.	Younger consumers generally prefer sweet to salty.	New and exotic tastes. Product quality.	”
<b>EU – 15</b>	<ul style="list-style-type: none"> <li>• 378.5 million</li> <li>• 73% urban</li> </ul>	Consumption is expanding among younger consumers.	Tastes vary favoring both traditional and exotic flavors.	”	”
<b>Eastern Europe (excluding the FSU)</b>	<ul style="list-style-type: none"> <li>• 101.8 million</li> <li>• 65% urban</li> </ul>	Consumption lags behind that of developed markets.	”	”	Regional producers making inroads.
<b>Russia</b>	<ul style="list-style-type: none"> <li>• 143.5 million</li> <li>• 73% urban</li> </ul>	Soaring consumption rates.	Demand new tastes and flavors.	”	”

Note: Bold quotation marks indicate “ditto” (same as the above case).

## Summary of Market Opportunities & Challenges: Asia

Country	Market Size	Market characteristics	Local taste preferences	Best prospects for U.S. snacks	Marketing Challenges
<b>China</b>	<ul style="list-style-type: none"> <li>• 1,28 billion</li> <li>• 38% urban</li> </ul>	23% of the population falls within the critical 0-14 year age group. China counts with a middle class numbering over 200 million people.	Outside of major urban population centers, and especially among the older segments of Chinese society, Western snack foods have made only limited inroads.	Marketing exotic foreign taste sensations to the expanding urban middle class.	High tariff barriers. Cumbersome food laws and sanitary and phytosanitary rules. Product distribution complicated by China's vastness.
<b>Hong Kong</b>	<ul style="list-style-type: none"> <li>• 6.8 million</li> <li>• 100% urban</li> </ul>	Consumers are highly receptive to exotic foreign snacks.	Dried fruits, nuts, and potato chips.	Dried fruits (i.e. pistachios) and secondary sources for potato chips.	Local market dominated by <i>Calbee Foods</i> and <i>Four Seas Mercantile</i> .
<b>South Korea</b>	<ul style="list-style-type: none"> <li>• 48.4 million</li> <li>• 79% urban</li> </ul>	Consumers seek higher value, quality, ease, and bold exotic tastes.	Affinity for trendy Western tastes.	Snack products promoted as being healthy.	Robust local brands make selling global brands difficult.
<b>Japan</b>	<ul style="list-style-type: none"> <li>• 127.4 million</li> <li>• 78% urban</li> </ul>	Though a mature market, it remains highly receptive to American products.	Snacks must be savory and fresh tasting, as well as well packages and competitively priced.	Snack products that emphasis the good for you aspects of organics.	Stringent govt. controls pertaining to food safety. Biotech product issues.
<b>Philippines</b>	<ul style="list-style-type: none"> <li>• 80.0 million</li> <li>• 47% urban</li> </ul>	Filipinos are very familiar with American snack products.	Favor low-calorie, low-fat, low-salt snacks. Enjoy sweet	Snack products geared toward teenagers and young adults.	Price competitive-ness.
<b>India</b>	<ul style="list-style-type: none"> <li>• 1,04 billion</li> <li>• 28% percent</li> </ul>	Nearly half the population is under 20 years of age.	Flavored chips (i.e. tomato), to banana chips, to traditional fried foods.	Snack products designed specifically for this market.	Outside the middle and upper income groups, most consumers remain price sensitive.

Summary of Market Opportunities & Challenges: Africa and the Middle East					
Country	Market Size	Market characteristics	Local taste preferences	Best prospects for U.S. snacks	Marketing Challenges
<b>Nigeria</b>	<ul style="list-style-type: none"> <li>• 129.9 million</li> <li>• 36% urban</li> </ul>	Rapid population growth in urban centers has strained local manufacturers capabilities to meet demand.	Consumers favor American imports, since these are viewed as being of higher quality and value.	Catering to middle and upper income groups in major urban centers.	High tariff duties foment customs irregularities. Both food product adulteration and illegal imports are widespread.
<b>Kenya</b>	<ul style="list-style-type: none"> <li>• 31.1 million</li> <li>• 20% urban</li> </ul>	Highly competitive supermarkets actively stock U.S. products.	”	”	Distance and price sensitivity.
<b>South Africa</b>	<ul style="list-style-type: none"> <li>• 43.6 million</li> <li>• 54% urban</li> </ul>	Middle income developing country with a market-oriented agricultural economy.	Chutneys, beef flavorings, cheese, tomato, curry, salt and vinegar snacks. Flavorings and not type of product drives purchases.	Local importers seek U.S. exporters that can offer reliability and quality at competitive prices.	Major food processing companies already present in the country.
<b>Egypt</b>	<ul style="list-style-type: none"> <li>• 71.2 million</li> <li>• 43% urban</li> </ul>	International supermarket chains are increasingly making their presence felt.	Salty and bold flavored snacks sell best (i.e. chicken curry, kebab, lemon, and spicy).	Catering to middle and upper income groups in major urban centers.	Lack of consumer awareness, limited income, and trade hurdles.
<b>Saudi Arabia</b>	<ul style="list-style-type: none"> <li>• 24.0 million</li> <li>• 83% urban</li> </ul>	Chips have become especially popular among youngsters.	American imports are viewed as being of high quality and value.	”	Declining GDP p/capita. Labeling requirements.
<b>United Arab Emirates</b>	<ul style="list-style-type: none"> <li>• 3.5 million</li> <li>• 78% urban</li> </ul>	Major regional re-exporter of agricultural products.	”	”	Some local production and lower quality Asian imports.

Note: Bold quotation marks indicate “ditto” (same as the above case).

Summary of Market Opportunities & Challenges: The Americas					
Country	Market Size	Market characteristics	Local taste preferences	Best prospects for U.S. snacks	Marketing Challenges
<b>Argentina</b>	<ul style="list-style-type: none"> <li>• 36.5 million</li> <li>• 90% urban</li> </ul>	Imported U.S. processed foods products have traditionally been well received.	Salty and bold flavored snacks.	Potato chips/ crisps. Target more affluent sectors of society.	Severe economic retrenchment has made imports luxury/ novelty items.
<b>Brazil</b>	<ul style="list-style-type: none"> <li>• 173.8 million</li> <li>• 81% urban</li> </ul>	”	Mimic those of more developed countries. Salty and sweet snacks are favored.	”	Consumption is largely skewed in favor of upper income sector of society.
<b>Canada</b>	<ul style="list-style-type: none"> <li>• 31.3 million</li> <li>• 78% urban</li> </ul>	Consumers will demand value for their money and are increasingly health conscious.	Very similar to those found in the U.S. market.	Consumers are highly receptive to new tastes, organics, and especially quality snacks.	Large territorial mass and sparse population. Competition is fierce, small number of retailers control market.
<b>Mexico</b>	<ul style="list-style-type: none"> <li>• 101.7 million</li> <li>• 74% urban</li> </ul>	U.S. snacks dominate the imported snack sector.	”	”	Mexican producers increasingly becoming more competitive in terms of quality and price.
<b>Andean Community</b> (Bolivia, Chile, Peru, Colombia, Ecuador, and Venezuela)	<ul style="list-style-type: none"> <li>• 133 million</li> <li>• 73.5% urban</li> </ul>	Market is estimated to grow by 100% during the next decade.	Consumers demand new flavors and tastes.	Consumers are very receptive to U.S. products.	Political and financial instability. Poor infrastructure outside major cities and low income.

Note: Bold quotation marks indicate “ditto” (same as the above case).

Summary of Market Opportunities & Challenges: Oceania					
Country	Market Size	Market characteristics	Local taste preferences	Best prospects for U.S. snacks	Marketing Challenges
<b>Australia</b>	<ul style="list-style-type: none"> <li>• 19.7 million</li> <li>• 85% urban</li> </ul>	Interest with eating healthier is driving local demand.	Nutritious snacks, low-fat content snacks. Salty snacks are accepted.	Ingredient market for snack foods and healthy for you snacks.	Possibilities for large-scale export of packaged snacks are limited.
<b>New Zealand</b>	<ul style="list-style-type: none"> <li>• 3.9 million</li> <li>• 77% urban</li> </ul>	Similar to the neighboring Australian market.	<i>Muesli</i> bars and potato chips drive sales. Corn chips are increasingly seen as a healthier, more substantial, lower-fat alternative to potato chips.	Alternative snacks such as bagel chips, pretzels, and snack mixes.	Price-based competition from local snacks and Australian imports. Import demand also is affected by the US dollar's value.
<b>Papua – New Guinea</b>	<ul style="list-style-type: none"> <li>• 5.0 million</li> <li>• 15% urban</li> </ul>	Small size.	Consumers in urban centers are becoming more western in their food tastes.	Catering to the needs of urban and expatriate consumers. Increased demand for foreign tastes such as Mexican, Asian, Italian, Indian.	Established presence of Australian and Asian products. Small market size and price sensitivities.
<b>Fiji</b>	<ul style="list-style-type: none"> <li>• 0.9K</li> <li>• 46% urban</li> </ul>	”	”	New tastes and flavors.	Presence of regional exporters.
<b>New Caledonia</b>	<ul style="list-style-type: none"> <li>• 0.2K</li> <li>• 71% urban</li> </ul>	”	”	”	Presence of regional exporters.
<b>French Polynesia</b>	<ul style="list-style-type: none"> <li>• 0.2K</li> <li>• 53% urban</li> </ul>	”	”	”	Presence of regional exporters.

Note: Bold quotation marks indicate “ditto” (same as the above case).



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## APPENDIX C: CONTACTS FOR SNACK FOOD DISTRIBUTION IN SELECTED EXPORT MARKETS

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While it is impractical to provide a complete list of contacts for snack food distribution in selected export markets, a contact list is available upon request. The list available is provided for your information with the understanding that no discrimination is intended and no guarantee of reliability is implied. This report provides information only and does not endorse firms.



### USDA-FAS-Ag Export Services Division



#### Interested in a free list of international snack food buyers?

USDA-FAS-AgExport Services Division offers a range of services for new and experienced exporters. One of these services are "Foreign Buyers Lists".

To receive a *free list of snack food buyers* and their contact information for Canada, Mexico, Japan, Korea, Philippines, United Kingdom and Germany (a total of 53 companies), **please supply the following information and fax it back to (202) 205-2963.**

If you have any questions or concerns, please feel free to contact AgConnections at (202) 690-3576 or via e-mail at [agconnections@fas.usda.gov](mailto:agconnections@fas.usda.gov).

Name \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City/ State/ Zip Code \_\_\_\_\_

Phone \_\_\_\_\_ Fax \_\_\_\_\_

E-mail \_\_\_\_\_

Web Site \_\_\_\_\_

The signature below certifies that a U.S. COMPANY or a company with production operations in the U.S. employs the recipient of these Foreign Buyer Lists. It is understood that these Foreign Buyer Lists are not intended for further distribution beyond the recipient company.

Signature \_\_\_\_\_ Date \_\_\_\_\_

Revised December, 2002, OMB 0551-0031

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